

APPENDIX A

CITY OF SAN ANTONIO GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

This Appendix contains a brief discussion of certain economic and demographic characteristics of the City of San Antonio, Texas (the “City” or “San Antonio”) and of the metropolitan area in which the City is located. Although the information in this Appendix has been provided by sources believed to be reliable, no investigation has been made by the City to verify the accuracy or completeness of such information.

Population and Location

The Census 2000, prepared by the U.S. Census Bureau, found a City population of 1,144,646. The City’s Department of Planning estimated the City’s population at 1,282,800 for the calendar year ending December 31, 2004. The U.S. Census Bureau ranks the City as the second largest in the State of Texas and the eighth largest in the United States.

The City is the county seat of Bexar County, which has a population of 1,392,931 according to the Census 2000. The City’s Department of Planning estimated Bexar County’s population at 1,560,500 for the calendar year ending December 31, 2004. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the U.S./Mexico border cities of Del Rio, Eagle Pass, and Laredo, respectively.

The following table provides, as of April 1 for the years shown, the population of the City, Bexar County, and the San Antonio Metropolitan Statistical Area (“MSA”), which includes Bexar County and Comal, Wilson, and Guadalupe Counties:

Year	City of San Antonio	Bexar County	San Antonio MSA
1920	161,399	202,096	238,639
1930	231,542	292,533	333,442
1940	253,854	338,176	376,093
1950	408,442	500,460	542,209
1960	587,718	687,151	736,066
1970	654,153	860,460	888,179
1980	786,023	988,971	1,088,881
1990	935,933	1,185,394	1,324,749
2000	1,144,646	1,392,931	1,592,383

Sources: U.S. Census Bureau; City of San Antonio, Department of Planning.

Area and Topography

The area of the City has increased through numerous annexations, and now contains approximately 511.78 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous streams fed with underground spring water. The average elevation is 788 feet above mean sea level.

Annexation

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 448.41 square miles (full purpose annexations only) or 511.78 square miles (both full purpose and limited purpose annexations), and having a fiscal year 2005 total market valuation of \$51.741 billion¹. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as

¹ Based on Tax Year 2004 Actual Market Value of Taxable Property certified by Bexar Appraisal District as of July 25, 2004.

well as an opportunity to enhance the City's fiscal position. Planned annexations by the City are currently under consideration.

At its November 20, 2002 meeting, the City Council annexed, effective December 31, 2002, five areas for inclusion within the City for full purposes, adding 18.70 square miles of land to the City's total area. At that same meeting, the City Council also annexed, effective January 5, 2003 six areas for limited purposes. Effective August 1, 2004, City Council annexed an additional area for limited purposes south of the Medina River. The areas annexed for limited purposes account for a total of 63.37 square miles of land within the City's corporate limits. Limited purpose annexation areas, although included in the total calculation of the City corporate limits, are excluded in the calculation of property values. (See "Limited Purpose Annexation" below).

Limited Purpose Annexation

The City annexed for limited purposes, effective January 5, 2003, six areas south of San Antonio and an additional area south of the Medina River, effective August 1, 2004. Limited purpose annexation allows the City to extend regulatory authority for the limited purposes of applying its planning, zoning, health, and safety ordinances to specified areas. The City may not impose a property tax in such areas until the property is annexed for full purposes, which generally occurs within three years after limited purpose annexation.

As a requirement of Section 43.123, Texas Local Government Code, as amended, the City published a planning study and regulatory plan regarding the proposed limited purpose annexation areas. The planning study addresses projected levels of development in the next ten years with and without annexation of such areas, issues regarding (and the public benefits of) annexation, economic and environmental impact of annexation, and proposed zoning for the specified areas. The regulatory plan outlines development regulations and the respective dates of future, full purpose annexation.

Annexation Plan

In 1999, the Texas Legislature passed Chapter 1167, Acts of the 76th Legislature, Regular Session, 1999 (the "Annexation Act"), changing the manner in which Texas municipalities can annex land. Under the Annexation Act (such requirement now codified at Section 43.052, Texas Local Government Code), municipalities must prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted.

The City Council, at its September 19, 2002 meeting, adopted a three-year annexation plan for the City. At its December 12, 2002 meeting, City Council amended the plan identifying 13 areas for full purpose annexation, as required by Section 43.052 of the Texas Local Government Code, seven of these areas are scheduled to be annexed effective December 31, 2005, and the six south side limited purpose annexation areas are scheduled to be annexed for full purposes on January 5, 2006. City Council approved an additional amendment to its annexation plan on July 22, 2004, to include the limited purpose annexation south of the Medina River, which is scheduled for full purpose annexation on July 31, 2007.

Form of Government and Administration

The City is a Home Rule Municipality that operates pursuant to the City of San Antonio City Charter (the "City Charter"), which was adopted in 1951 and became effective on January 1, 1952. The City Charter provides for a council-manager form of government, whereby subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets, and determines policies. The City Council is comprised of eleven (11) members, with ten members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two (2) year terms, and each member is limited to a maximum of two (2) full terms. The office of the Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2005.

The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council.

Since its adoption, the City Charter has been amended on five separate occasions, November 1974, January 1977, May 1991, May 1997, and November 2001. Significant amendments to the City Charter include the amendment passed in May 1991, which limited the service by the Mayor and members of the City Council members to two full terms, each of which is two years in duration. Two separate City Charter review committees sitting in the early and mid-1990's and charged with conducting a comprehensive review of the City Charter resulted in the May 1997 passage of five propositions, each containing numerous amendments to the City Charter in May 1997. The most recent amendments to the City Charter occurred in 2001 and included, among others, provisions creating the position of an independent City Internal Auditor and granting the City Manager the power to appoint and remove the City Attorney upon the City Council's advice and/or confirmation.

City Manager Selection

On September 10, 2004, through Ordinance No. 99703, City Council accepted the resignation of the City Manager, Terry M. Brechtel. Ms. Brechtel's resignation was effective October 1, 2004. J. Rolando Bono was appointed to serve as Interim City Manager through Ordinance No. 99821; and his terms and conditions of employment were adopted and approved by Ordinance No. 99850. Mr. Bono will continue to serve as Interim City Manager until such time as the City Council appoints a City Manager. The City Council has hired a professional firm to assist in a nationwide search for a new City Manager.

Services

The full range of services the City provides to its constituents includes ongoing programs to provide health, welfare, art, cultural, and recreational services; maintenance and construction of streets, highways, drainage, and sanitation systems; public safety through police and fire protection; and urban redevelopment and housing. The City also considers the promotion of convention and tourism and participation in economic development programs high priorities. The funding sources from which these services are provided include ad valorem, sales, and hotel/motel tax receipts, federal and state grants, user fees, bond proceeds, tax increment financing, and other sources.

In addition to the above described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport, parking, storm water, and environmental services.

Electric and gas services to the San Antonio area are provided by City Public Service ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 16 generating unit electric system and the gas system that serves the San Antonio area. CPS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2004 were \$191,353,560.

Water, wastewater, recycled water, steam, and chilled water services are provided by the San Antonio Water System ("SAWS"), another City-owned and operated utility. In addition to these services, SAWS contracted with the City to provide certain storm water services thereto and it manages and develops water resources in and around the San Antonio region. SAWS is in its 13th year as a separate, consolidated entity that addresses the City's water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City's fiscal year ended September 30, 2004 were \$6,900,308.

Economic Factors

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, agribusiness, manufacturing, financial business, telecommunications, telemarketing, insurance, and mineral production. Support for these economic activities is demonstrated by the City's commitment to its on-going infrastructure improvements and development and its dedicated work force. Total nonagricultural employment in the San Antonio MSA for November 2004 was 738,600, which is 11,200 or 1.54% more jobs than the November 2003 total of 727,400. Service, trade, and government represent the largest employment sectors in the San Antonio MSA. Medical and bio-medical, tourism, and the military represent the largest industries in San

Antonio. The City serves as a major insurance center in the southwest United States and is the headquarters location for several insurance companies. According to the San Antonio Business Journal Book of Lists 2005, San Antonio's five largest private-sector employers ranked by number of employees are: USAA (United Service Automobile Association), Methodist Healthcare System, SBC Communications, Inc., Baptist Health System, and Six Flags Fiesta Texas; and San Antonio's five largest publicly traded companies, ranked by revenues, are SBC Communications, Inc., Valero Energy Corp., Clear Channel Communications, Inc., Tesoro Petroleum Corp., and Harte-Hanks Inc.

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains the largest industry sector in the San Antonio economy. The industry is diversified, with related industries such as research, pharmaceuticals, and manufacturing contributing approximately the same economic impact as health services. According to the *San Antonio's Healthcare and Bioscience Industry Economic Impact Study* commissioned by the Greater San Antonio Chamber of Commerce, the total economic impact from this industry sector totaled approximately \$12.9 billion in 2003. The industry provided 103,156 jobs, or approximately 14% of the City's total employment. The healthcare and bioscience industry's annual payroll in 2003 approached \$3.9 billion. The 2003 average annual wage of San Antonio workers was \$32,564, compared to \$37,747 for healthcare and bioscience employees. These 2003 economic impact figures represent growth of 8% over the previous year, or approximately \$1 billion. In addition, employment in the industry grew by 34% from 1993 through 2003.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has ten major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over \$2.5 billion as of January 2004. As of January 2004, approximately 26,757 Medical Center employees provided care for over 3.64 million outpatients and approximately 101,871 inpatients. A survey based on 2002 data of 371,000 patients treated in the Medical Center with estimated billings of \$573 million, indicated that 30% or 111,000 came from surrounding counties. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represent approximately \$1.7 billion, which is a \$42 million increase in 2003 over the previous year. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects already in progress total \$141 million, which represent a 26% increase in 2003 over the previous year. Capital projects planned for the years 2005 through 2009 will add an additional estimated \$169 million to present physical plant and equipment values.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the "UT Health Science Center") with its five professional schools awarding more than 50 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UT Health Science Center oversees the new, federally-funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. An extension campus is under construction in Laredo, Texas. The UT Health Science Center received the largest amount of research funding of any South Texas university or institution in fiscal year 2003, garnering \$189 million.

There are numerous other medical facilities outside the boundaries of the Medical Center, including 25 short-term general hospitals, two children's psychiatric hospitals, and two state hospitals. There are three Department of Defense hospitals, one of which is located in the Medical Center (as hereinafter described).

Military Health Care. San Antonio has three major military hospitals, each of which has positively impacted the City for decades. Brooke Army Medical Center ("BAMC") conducts treatment and research in a new, 1.5 million square foot facility at Fort Sam Houston U.S. Army Base, providing health care to nearly 600,000 military personnel and their families. BAMC is a level one trauma center (the only one in the U.S. Army medical care system) and contains the world-renowned Institute of Surgical Research Burn Center. BAMC also conducts bone marrow transplants in addition to more than 600 ongoing research studies.

Wilford Hall Medical Center ("Wilford Hall") is the largest medical facility of the U.S. Air Force. In addition to providing health care to military personnel and their families, Wilford Hall is also a level one trauma center (the only one in the U.S. Air Force medical care system) that handles emergency medical care for approximately one-fourth of the City's emergency patients. Wilford Hall provides medical education for the majority of its physician and dental specialists and other health professionals, conducts clinical investigations, and offers bone marrow and organ transplantation.

Audie L. Murphy Memorial Veterans Hospital, located in the Medical Center, is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, the Audie L. Murphy Research Services (which is dedicated to medical investigations), and the new Frank Tejada VA Outpatient Clinic (which serves veterans located throughout South Texas).

The two military medical care facilities and the Veterans Hospital partner in a variety of ways, including clinical research and the provision of medical care to military veterans. This partnership is unique and represents a valuable resource to San Antonio and the nation.

Bio-Medical Research and Development. Research and development are important areas that strengthen San Antonio's position as an innovator in the bio-medical field, with total research economic impact exceeding \$1.005 billion annually.

The Texas Research Park (the "Park") is the site for the University of Texas Institute of Biotechnology/Department of Molecular Medicine, the Cancer Therapy, and Research Center's Institute for Drug Development, The Southwest Oncology Group, and dozens of new biotechnology-related companies, whose work involves various stages of the very complicated drug development process. The Park has over \$100 million invested in its facilities and equipment and generates more than \$200 million in economic activity for the City each year. The Park is owned and operated by the Texas Research Park Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation. SBC Communications, Inc. donated \$1.8 million to the Park for a 7,000 square foot, state-of-the-art teleconferencing building that links all facilities at the Park to the UT Health Science Center and the University of Texas San Antonio ("UTSA").

The Southwest Foundation for Biomedical Research, which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the United States, and is internationally renowned. The Southwest Foundation for Biomedical Research has a full time staff of 72 doctoral level employees, a technical staff of 115, and an administrative and supporting staff of 201 persons. Research departments include Departments of Genetics, Physiology and Medicine, Virology and Immunology, and Organic and Biological Chemistry. The Department of Laboratory Animal Medicine maintains the animal care facilities. The Foundation is also home to one of the few BSL-4 labs in the country, and its Genomics Computing is the world's largest computer cluster devoted to statistical genetic analysis.

The UT Health Science Center has been a major bioscience research engine since its inception, with strong research groups in cancer, cancer prevention, diabetes, drug development, geriatrics, growth factor and molecular genetics, heart disease, stroke prevention, and many other fields. One of its latest achievements is the establishment of the Children's Cancer Research Center, endowed with \$200 million from the State of Texas's tobacco settlement. The UT Health Science Center, along with the Cancer Therapy and Research Center, forms the San Antonio Cancer Institute, a National Cancer Institute-designated Comprehensive Cancer Center.

UTSA houses the Cajal Neuroscience Research Center, which is funded by \$11 million in ongoing grants and is tasked with training students in research skills while they perform basic neuroscience research on subjects such as aging and Alzheimer's disease. UTSA is also the recipient of more than \$35 million for its new School of Bioengineering.

A number of highly successful private corporations, such as Mission Pharmacal, DPT Laboratories, Ltd., and ILEX Oncology, Inc., operate their own research and development groups and act as guideposts for numerous biotech startups, bringing new dollars into the area's economy. A notable example of the results of these firms' research and development is ILEX Oncology, Inc., which has developed eight of the last 11 cancer drugs approved for general use by the Federal Drug Administration.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry, which ranks second in its local economic impact. A recent study by the Greater San Antonio Chamber of Commerce found that in 2002 the hospitality industry had an economic impact of nearly \$7.2 billion. The estimated annual payroll for

the industry in 2002 was \$1.2 billion, and the industry employed over 80,000. In 2003, the City's overall performance for hotel occupancy increased by 0.3% and total room nights sold in the destination increased by 2.8%.

Tourism. During 2002, San Antonio attracted nearly 20 million visitors with direct spending across all industries in the City of \$4.8 billion. The list of attractions in the San Antonio area includes, among many others, the Alamo, and other sites of historic significance, the River Walk, two major theme parks (SeaWorld of Texas and Six Flags Fiesta Texas), and the professional basketball team, the San Antonio Spurs. In 2002, San Antonio ranked ninth among U.S. destinations for overnight leisure travel, according to research commissioned by the San Antonio Convention and Visitors Bureau. Visitor information is updated on a biennial basis with the next release scheduled for June 2005.

Conventions. San Antonio is one of the top convention cities in the country, and the recent expansion of the Henry B. Gonzalez Convention Center has enabled the area to compete for more and bigger conventions. The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows both overall city performance as well as convention activity booked by the San Antonio Convention & Visitors Bureau for the years indicated:

Calendar Year	Hotel Occupancy (%) ¹	Room Nights Sold ¹	Convention Attendance ²	Convention Room Nights ²	Convention Delegate Expenditures (\$ Millions) ^{2,3}
1995	68.2	5,255,310	400,751	744,954	328.1
1996	66.3	5,569,917	486,383	725,395	398.3
1997	64.5	5,747,771	417,492	670,039	341.9
1998	66.1	6,093,945	445,151	724,882	401.0
1999	65.2	6,219,742	406,539	678,014	366.2
2000	65.5	6,495,654	389,448	696,215	350.8
2001	63.1	6,361,879	419,970	712,189	378.3
2002	64.1	6,581,841	521,278	826,566	469.6
2003	64.7	6,871,139	424,951	709,081	382.8
2004	65.6	7,034,431	504,704	711,568	524.5

¹ Source: Smith Travel Research, based on hotels in San Antonio.

² Reflects only those conventions booked by the Convention and Visitors Bureau.

³ For the years of 1995 through 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the International Association of Convention and Visitor Bureaus ("IACVB") which reflected the average expenditure of \$818.82 per convention and trade show delegate. Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 IACVB Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP, which reflected the average expenditure of \$900.89 per convention and trade show delegate. Calendar year 2004 is based on an average expenditure of \$1,030.20 per convention and trade show delegate, according to a Veris Consulting, LLC study for the IACVB.

Military Installations

The military represents a principal component of the City's economy providing an impact of over \$5 billion annually. Three major military installations are currently located in Bexar County, including Lackland Air Force Base ("Lackland AFB"), Fort Sam Houston U.S. Army Base ("Fort Sam"), and Randolph Air Force Base ("Randolph AFB"). In addition, the property of Brooks Air Force Base ("Brooks AFB"), a fourth major military installation, was transferred from the United States Air Force (the "Air Force") to the City-created Brooks Development Authority on July 22, 2002, as part of the Brooks City-Base Project ("Brooks City-Base"). As of September 2003, the total Department of Defense military employment associated with the three active military installations and Brooks City-Base approximates 80,500 military, civilian, and guard/reserve personnel with an annual aggregate payroll of over \$3 billion.

Military Base Redevelopment. On July 13, 2001, Kelly Air Force Base ("Kelly AFB") officially closed and the land and facilities were transferred to the Greater Kelly Development Authority ("GKDA"), a City Council-created organization responsible for overseeing the redevelopment of the base into a business and industrial park.

The new business park, known as KellyUSA, is focused on becoming the Port of San Antonio by: (1) establishing international air cargo operations; (2) developing a Kelly rail port for direct international rail operations including inland port distribution with the Port of Corpus Christi; (3) expanding aviation maintenance, repair, and overhaul (“MRO”) operations into a renowned international center of excellence for MRO. KellyUSA has facility assets of approximately \$1 billion and includes multi-modal infrastructure, including an 11,400-foot runway for commercial air operations valued at \$1.8 billion. To further the redevelopment goals, GKDA has completed over \$105 million in new construction and facility upgrades at KellyUSA, including a new 123,000 square foot hangar for Boeing in 2001 and a new office building in 2000. As of September 2004, redevelopment efforts have resulted in the retention of 7,221 military jobs and the creation of about 5,140 new commercial jobs. GKDA has also executed leases totaling approximately 8.2 million square feet of the space with 63 tenants such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero, General Dynamics, General Electric, and Pratt & Whitney. An additional 2.4 million square feet of space has been leased back to the Air Force for their continued use. In 2004, GKDA began “Phase II New Facility Development” at KellyUSA that encompasses \$364 million in capital projects financed by City, State, federal and private sector funds. GKDA projects that Phase II will generate another 6,400 jobs and increase KellyUSA’s economic impact on the community to \$4.3 billion annually.

Brooks City-Base is a collaborative effort between the Air Force and the City designed to retain the Air Force missions and jobs at Brooks AFB, improve Air Force mission effectiveness, assist the Air Force in reducing its support operating costs, and promote and enhance economic development on Brooks AFB and in the surrounding community. Both the City and the Air Force are partnering to utilize City incentives and existing Brooks AFB resources to create the Brooks Technology & Business Park (the “Park”), a facility that will foster the development of key targeted industry sectors, such as health services and biotechnology. Brooks Technology & Business Park was officially established on July 22, 2002, with the transfer of the 1,310 acres of land and improvements comprising Brooks AFB to the City Council-established organization, Brooks Development Authority (“BDA”), with the Air Force becoming Brooks Technology & Business Park’s anchor tenant and leasing back additional facilities, as necessary, to perform its missions. The City is now providing municipal services to Brooks Technology & Business Park and has been providing fire and police services thereto since October 2001. Base electric, gas, and water utilities have been transferred by the BDA to the City-owned utilities, CPS and SAWS, respectively. As of December 2004, the BDA is saving the Air Force over \$5 million a year in support costs while the Air Force is occupying 95 percent of available space at Brooks City-Base. The BDA has also leased out another 82,000 square feet to commercial tenants. Development projects underway or planned at Brooks City-Base include a \$24.5 million City/County Emergency Operations Center, \$10 million in storm drainage improvements, the construction of two new facilities for lease to a local pharmaceutical manufacturer, and the potential construction of facilities for a School of Pharmacy. In addition, in November 2004, the BDA completed the sale of 62 acres at the northeast corner of the Park to a local developer and Wal-Mart for the construction of a 570,000 square foot commercial retail development. This sale resulted in net revenue to the BDA of about \$10 million for reinvestment in the Park and will create approximately 500 new jobs in South San Antonio.

Fort Sam has also initiated leasing activities to reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the United States Army (the “Army”) entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. (“FSHRP”), for the redevelopment of the former Brooke Army Medical Center (“BAMC”) and two other buildings at Fort Sam. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, had been vacant for some time and were in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants. In September 2003, the Army relocated Army South Headquarters from Puerto Rico to Fort Sam, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately \$200 million. The Army negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the old BAMC, for renovation on these historic facilities which was completed summer 2004. The continued success of this unique public-private partnership at Fort Sam is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP. This project supports the City’s economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army intends to extend the public-private partnership initiative to include other properties at Fort Sam currently available for redevelopment.

The City, in partnership with the Greater San Antonio Chamber of Commerce, community volunteers, Bexar County, and community stakeholders, has also formed a Military Missions Task Force (the “Task Force”) to

continue working with local military installations to improve their military value, strengthen partnerships with local institutions, and to help attract new missions and jobs to San Antonio. With another round of base closure and realignment scheduled for 2005, the community has been proactive in strengthening the value of its military installations through unique initiatives like the Brooks City-Base project and the Fort Sam leasing project discussed above. The Task Force will continue to facilitate the success of these projects and to develop new partnership initiatives with the San Antonio military bases.

Other Major Industries

Aerospace Industry. The aerospace industry's annual economic impact to the City is about \$2.9 billion. This industry provides some 8,283 jobs, with employees earning total annual wages totaling over \$320 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, KellyUSA, Randolph AFB and Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace – a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta and Continental, FedEx, UPS, and others. The industry in San Antonio is very diversified with continued growth in air passenger service, air cargo, MRO, and general aviation.

San Antonio International Airport ("SAT") has added three new non-stop passenger routes in the past 12 months and currently has flights to 28 non-stop destinations, with seasonal charter service to Mexico available during the spring and summer. SAT is currently developing construction plans for a new Terminal B and Parking Garage, with groundbreaking expected respectively in the spring and summer 2005. SAT is also in the process of an Environmental Impact Statement for implementation of proposed airfield capacity enhancement projects recommended in the Airport Master Plan. Stinson is at 100% occupancy rate and has a tenant waiting list for facilities. A Stinson Master Plan was approved by the City Council in October 2002, implementation of the Master Plan recommendations is currently in process pending the successful completion of an Environmental Assessment for certain airfield improvements.

At KellyUSA, the MRO business is strong as tenants such as Boeing and Lockheed continue to secure long-term government contracts. KellyUSA is also working to add air cargo activity, having completed an Air Cargo Study and Strategic Plan in June 2002. This study also provided SAT with an Air Cargo Strategic Plan that includes recommendations on expanding the existing integrator service primarily provided by UPS, FedEx, and Airborne Express. In fall 2001, the community established the innovative Alamo Area Aerospace Academy ("AAAA"), a two-year training and internship program for high school juniors and seniors to prepare these students for a career in the aerospace industry and to help fill a critical workforce requirement. After three years, AAAA has graduated 117 seniors from the program with 87 finding jobs with a local aerospace company.

Aerospace Research and Development. Brooks Air Force Base 311th Human Systems Wing's School of Aerospace Medicine, long active in research and development related to aviation and human systems, conducts research related to human effectiveness in aviation and is opening a new aircraft sustainability laboratory that will conduct research and development applicable to commercial aviation.

The Southwest Research Institute is one of the original and largest independent, nonprofit, applied engineering and physical sciences research and development organizations in the United States, serving industries and governments around the world in the engineering and physical sciences. Southwest Research Institute has contracts with the Federal Aviation Administration, General Electric, Pratt & Whitney, and other organizations to conduct research on many aspects of aviation, including testing synthetic jet fuel, developing software to assist with jet engine design, and testing turbine safety and materials stability. Southwest Research Institute occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for more than 2,700 scientists, engineers, and support personnel.

Information Technology Industry. The Information Technology ("IT") industry is one of the fastest-growing sectors of the local economy. With an overall economic impact of approximately \$3.4 billion, the IT industry represents about 7% of the San Antonio economy. Its economic impact has tripled since 1990 and doubled since 1995. The IT industry includes two major types of activity: (i) the production and sale of various types of computer products and (ii) computer/data processing services. Due to the presence of many industry-leading information security companies and organizations, San Antonio is especially strong in this segment of the IT

industry. The annual payroll among the IT industry's estimated 11,500 employees totals approximately \$500 million. Not captured in this employment number is an additional 4,600 employees of the Air Intelligence Agency located in San Antonio, which is the premier IT agency for the Air Force and the Department of Defense. The success of the AAAA prompted the community to establish a similar academy for IT, which began in August 2002 with an enrollment of 81 high school juniors and increasing to 104 juniors and seniors in the 2003/2004 class. The City is focused on leveraging its IT industry assets to serve the nation in developing and implementing the initiatives of the federal Homeland Security Act.

Manufacturing Industry. Toyota Motor Manufacturing broke ground on their sixth North American manufacturing facility on October 17, 2003. Toyota will invest over \$500 million in this facility, located on 2,000 acres in South San Antonio. Production is scheduled to begin in 2006, and at full production, the facility will produce 150,000 full-size Tundra trucks. With this project, Toyota will create 2,100 construction jobs, 2,000 direct jobs, and 5,300 spin-off jobs. At full operations, the payroll for the 2,000 workers at the facility will total between \$90 and \$100 million. It is estimated that the rate of return on the City of San Antonio's investment is 18.3%. In addition, on December 16, 2004, Toyota announced the creation of a Supplier Park at the Toyota manufacturing site. This Supplier Park will attract 18 supplier companies and create 1,500 manufacturing and assembly jobs with a capital investment of about \$150 million.

Sources: The Greater San Antonio Chamber of Commerce; San Antonio Medical Foundation; City of San Antonio, Department of Economic Development and Convention and Visitors Bureau.

Growth Indices

San Antonio Electric and Gas Customers

<u>For the Month of December</u>	<u>Electric Customers</u>	<u>Gas Customers</u>
1995	516,679	297,654
1996	528,302	299,140
1997	538,729	301,044
1998	548,468	301,842
1999	560,628	302,991
2000	575,461	305,181
2001	589,426	305,702
2002	594,945	306,503
2003	602,185	306,591
2004	617,261	308,681

Source: CPS.

San Antonio Water System Average Customers per Fiscal Year

<u>Fiscal Year Ended May 31^{1, 2}</u>	<u>Water Customers³</u>
1995	266,308
1996	269,405
1997	273,276
1998	270,897
1999	279,210
2000	285,887
2001	292,136
2002	298,215
2003	303,917
2004	311,554

¹ On April 3, 2001, the SAWS Board of Trustees approved the changing of SAWS' fiscal year from a year-end of May 31 to December 31.

² Beginning in year 2001, for the 12 months ending December 31.

³ Excluding SAWS irrigation customers.

Source: SAWS.

Construction Activity

Set forth below is a table showing building permits issued for construction within the City at December 31 for the years indicated:

Calendar Year	Residential Single Family		Residential Multi-Family ¹		Other ²	
	Permits	Valuation	Permits	Valuation	Permits	Valuation
1995	3,925	\$ 237,796,446	353	\$ 63,396,919	11,588	\$ 420,001,031
1996	4,306	261,540,367	171	64,282,630	9,055	578,225,607
1997	4,240	257,052,585	155	42,859,473	8,170	717,988,779
1998	5,630	363,747,169	85	23,194,475	8,193	892,766,648
1999	5,771	398,432,375	404	157,702,704	9,870	911,543,958
2000	5,494	383,084,509	201	81,682,787	10,781	957,808,435
2001	6,132	426,766,091	449	142,506,920	12,732	1,217,217,803
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271
2003	6,771	521,090,684	141	2,738,551	13,813	1,041,363,980
2004	7,434	825,787,434	206	7,044,283	14,695	1,389,950,935

¹ Includes two-family duplex projects.

² Includes commercial building permits, commercial additions, improvements, extensions, and certain residential improvements.
Source: City of San Antonio, Department of Development Services.

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

	Calendar Year					
	2004	2003	2002	2001	2000	1999
Amarillo	\$ 48,155,445	\$ 44,581,868	\$ 44,201,183	\$ 43,357,043	\$ 42,474,995	\$ 40,781,524
Arlington	49,344,578	46,483,314	42,493,256	65,948,096	65,264,427	60,092,585
Austin	112,515,478	105,044,871	110,208,923	117,393,240	117,818,293	104,915,700
Dallas	192,972,586	184,263,151	192,542,321	210,130,838	215,412,071	198,740,061
El Paso	51,461,838	48,949,656	47,465,776	46,876,210	45,970,014	43,603,400
Fort Worth	76,202,528	72,772,964	72,632,487	72,975,421	71,543,992	68,142,426
Houston	355,616,488	325,284,697	334,122,179	337,540,694	321,095,967	308,508,700
Irving	37,719,779	36,584,559	38,810,594	43,188,105	44,773,277	42,773,277
Plano	49,453,998	46,876,867	45,309,249	47,327,003	47,325,948	40,483,049
SAN ANTONIO	157,284,972	152,360,840	153,207,656	151,422,401	133,360,785	126,060,252

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 269,304 for the fall 2004, encompassing in the aggregate 41 high schools, 72 middle/junior high schools, and 247 elementary schools; and there are an additional 24 open enrollment charter school districts with a total of 48 schools at all grade levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. In addition, Bexar County has 93 accredited private and parochial schools at all education levels.

In San Antonio, the six largest universities, which include a medical school, a dental school, and a law school, and four public community colleges, had a combined enrollment of 93,721 for the fall 2004.

Source: Texas Education Agency.

Employment Statistics

The following table shows current employment estimates by industry in the San Antonio MSA for the period of November 2004, as compared to the prior periods of October 2004 and November 2003.

Employment by Industry

<u>San Antonio MSA¹</u>	<u>November 2004</u>	<u>October 2004</u>	<u>November 2003</u>
Natural Resources and Mining	2,300	2,300	2,200
Construction	41,400	41,600	39,600
Manufacturing	44,100	43,900	44,600
Trade, Transportation, and Utilities	133,400	131,000	132,600
Information	23,800	23,600	23,800
Financial Activities	60,800	60,700	59,500
Professional and Business Services	89,200	89,400	86,300
Educational and Health Services	100,000	100,000	97,600
Leisure and Hospitality	78,100	79,400	77,400
Other Services	27,900	27,500	26,900
Government	<u>137,600</u>	<u>137,000</u>	<u>136,900</u>
Total Nonagricultural	738,600	736,400	727,400

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio MSA, Texas, and the United States for the period of November 2004, as compared to the prior periods of October 2004 and November 2003.

Unemployment Information (all estimates are in thousands)

<u>San Antonio MSA¹</u>	<u>November 2004</u>	<u>October 2004</u>	<u>November 2003</u>
Civilian Labor Force	843.6	847.5	831.5
Number of Employed	804.5	809.2	787.0
Number of Unemployed	39.1	38.3	44.5
Unemployment Rate %	4.6	4.5	5.4
<u>Texas (Actual)¹</u>	<u>November 2004</u>	<u>October 2004</u>	<u>November 2003</u>
Civilian Labor Force	11,037.1	11,020.5	10,970.8
Number of Employed	10,438.8	10,438.7	10,272.1
Number of Unemployed	598.3	581.8	698.7
Unemployment Rate %	5.4	5.3	6.4
<u>United States (Actual)²</u>	<u>November 2004</u>	<u>October 2004</u>	<u>November 2003</u>
Civilian Labor Force	148,246.0	147,978.0	146,969.0
Number of Employed	140,581.0	140,447.0	138,700.0
Number of Unemployed	7,665.0	7,531.0	8,269.0
Unemployment Rate %	5.2	5.1	5.6

¹ Source: Labor Market Information Department, Texas Workforce Commission (model-based methodology).

² Source: Bureau of Labor Statistics, U.S. Department of Labor (Current Population Survey).

Employers with 500 or More Employees in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties)¹

Firm	Product/Service	Firm	Product/Service
Construction:			
Bexar Electric Company	Electrical Contractor	Urban Concrete Contractors	Exterior Concrete, Stucco
CCC Group, Inc.	Industrial Contractor	H.B. Zachry Company	General Contractor
Design Electric	Electrical Contractor		
Finance, Ins., Real Estate:			
American Funds Group	Mutual Funds & Investments	PacifiCare	Health Insurance
Argonaut	Insurance	Randolph-Brooks Federal Credit Union	Federal Credit Union
Bank of America	Banking/Financial	San Antonio Federal Credit Union	Federal Credit Union
Citigroup	Banking/Financial/Insurance	Security Service Federal Credit Union	Federal Credit Union
Frost National Bank	Banking/Financial	USAA	Insurance/Financial Services
The Hartford	Insurance	Washington Mutual Bank	Financial Services
Humana	Health Insurance	Wells Fargo	Financial Services
The Lynd Company	Insurance	World Savings	Savings Deposits And Loans
JP Morgan Chase	Banking/Financial		
Government:			
Bexar County	County Government	San Antonio Fire Department	Fire Department
Brooks City-Base	Military Installation & Ind. Park	San Antonio Housing Authority	Public Housing Assistance
City of San Antonio	Municipal Government	San Antonio Police Department	Police Department
Fort Sam Houston	Military Installation	Texas Dept. of Transportation	Road Construction/Maintenance
Lackland AFB/37th Training Wing	Military Installation	VIA Metropolitan Transit	Urban Public Transportation
Randolph Air Force Base	Military Installation		
Manufacturing:			
Alamo Concrete Products	Ready-Mix Concrete	Martin Marietta Materials SW, Inc.	Limestone, Asphalt & Concrete
Cardell Cabinetry	Cabinetry	Miller Curtain Company	Curtains & Draperies
Clarke American	Check Printing	Motorola	Industrial Electronics
DPT Laboratories, Inc.	Pharmaceuticals & Cosmetics	S.M.I. Texas	Steel Mfg. & Fabrication
Friedrich Air Conditioning Co.	Air Conditioning Systems	San Antonio Express-News	Newspaper Publisher
Frito-Lay, Inc.	Snack Foods	San Antonio Shoe, Inc. (SAS)	Men's and Ladies' Shoes
Kinetic Concepts, Inc.	Specialty Medical Products	Scooter Store, Inc.	Medical & Hospital Equipment
L & H Packing Company	Meat Processing	Sony Semiconductor San Antonio	Semiconductors
Lancer Corporation	Beverage Dispensing Equipment	Vulcan Materials	Paving Materials & Cement Prod.
Medical:			
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	Hospital & Health Care
Allied Home Health Nursing Svcs.	Home Health Care	Methodist Specialty & Transplant Hosp.	Hospital & Health Care
Baptist Health System	Hospital & Health Education	Methodist Metropolitan Hospital	Hospital & Health Care
University Health System	Health Care And Trauma Services	Morningside Ministries, Inc.	Residential Care/Health Care
Brooke Army Medical Center	Military Health Care	Outreach Health Services	Home Health Care
Center for Health Care Services	Mental Health Case Management	San Antonio State Hospital	Mental Health Care Facility
Christus Santa Rosa Health Care	Hospital & Health Care	San Antonio State School	Mental Retardation Care Facility
Girling Health Care, Inc.	Home Health Care	South Texas Veterans Health Care Sys.	Hospital & Health Care
Guadalupe Valley Hospital	Hospital Services	Southwest General Hospital	Hospital & Health Care
Interim Healthcare San Antonio	Nurses Registry	University Health System	Hospital & Health Care
McKenna Memorial Hospital	Hospital & Health Care	University Physicians Group	Primary & Specialty Health Care
Medical Team, Inc.	Home Health Care	University Health Science Center at S.A.	Professional Health Education
Methodist Children's Hospital	Children's Hospital & Health Care	VNA and Hospice of South Texas	Health Care & Hospice Care
Retail:			
Aaron Rents and Sells Furniture	Office & Residential Furniture	H.E. Butt (H.E.B.) Grocery Company	Supermarkets/Gourmet Stores
Ancira Enterprises	Auto Dealerships	Holt Company of Texas	Construction Equipment
Dillard's Department Stores	Department Stores	QVC San Antonio, Inc.	Electronic Customer Service Ctr.
Eckerd's Drugs of Texas, Inc.	Drug Stores	R & L Foods, Inc.	Taco Bell, Pizza Hut, & KFC
Eye Care Centers of America, Inc.	Eyewear	Sun Harvest Farms, Inc.	Natural Foods Grocery Stores
Foley's Department Stores	Department Stores	Tansec Inc./Div. of Radio Shack	Electronics
Gunn Automotive Group	Auto Dealerships	Target Stores	Discount Stores

¹ January 2004, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

(Table continues on next page.)

Employers with 500 or More Employees in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties) (continued)¹

Firm	Product/Service	Firm	Product/Service
Services:			
Administaff, Inc.	Professional Employer Org.	Parent/Child Inc.	Early Childhood Dev./Childcare
Advanced Temporaries, Inc.	Temporary Staffing	Peakload Temporary Services	Personnel Staffing
Advantage Rent-A-Car	Vehicle Rental	Pioneer Drilling Company	Oil & Gas Drilling
Air Force Village Foundation	Military Retirement Facility	Regal Cinemas	Movie Theaters
Alamo Community College District	Community College District	RK Group, Inc.	Catering
Alamo Heights School District	Public School District	San Antonio College	Community College
Allen Tharp & Associates	Food Service Consultant	San Antonio School District	Public School District
American Building Maintenance	Contract Janitorial & Maintenance	San Antonio Spurs LLC	Professional Basketball Team
Bill Miller Bar-B-Q Enterprises, Inc.	Restaurants & Catering	Schertz-Cibolo-Universal City S.D.	Public School District
Boeing Aerospace Support Center	Aircraft Maint. & Modification	Sears Teleservice Center	Customer Service Consultants
Cadbeck Staffing	Professional Employer Org.	SeaWorld of Texas, Inc.	Marine Life Entertainment
Calling Solutions, Inc.	Integrated Communications	Securitas Security Services USA, Inc.	Security Officer Services
Comal School District	Public School District	Seguin School District	Public School District
East Central School District	Public School District	Six Flags Fiesta Texas	Entertainment Theme Park
Edgewood School District	Public School District	Somerset School District	Public School District
Enterprise Rent-A-Car	Vehicle Rental	South San Antonio School District	Public School District
Floresville School District	Public School District	Southside School District	Public School District
Frontier Enterprises	Restaurant Headquarters	Southwest School District	Public School District
Goodwill Industries of San Antonio	Vocational Services	Southwest Research Institute	Research & Development
Harcourt Assessment, Inc.	Test Publisher	St. Mary's University	Private University
Harlandale School District	Public School District	St. Phillip's College	Community College
Hospital Klean of Texas, Inc.	Hospital Housekeeping	Staff Professionals Inc.	Personnel Staffing
Hyatt Hill Country Resort	Hotel Resort	Standard Aero US	Aircraft Engine Repair
Industry One Staffing	Personnel Staffing	Taco Cabana, Inc.	Restaurants
Judson School District	Public School District	Talent Tree, Inc.	Personnel Staffing
Little Caesar's of San Antonio, Inc.	Pizza Take Out Restaurants	Texas Department of Human Services	State Social Services
Lockheed Martin Kelly Aviation	Aviation Consultants	Treco Services, Inc.	Janitorial Contract Services
Luby's Cafeterias, Inc.	Cafeterias	Trinity University	Private University
Marriott Rivercenter Hotel	Hotel	University of Texas at San Antonio	Public University
McDonald's-Haljohn, Inc.	Fast Food Restaurants	University of The Incarnate Word	Private University
Mi Tierra Restaurant & Bakery	Restaurant & Bakery	VIP Temporaries	Personnel Staffing
MTC, Inc.	Restaurants	Waste Management, Inc.	Solid Waste Collection/Disposal
New Braunfels School District	Public School District	Waterpark Management, Inc.	Resort & Waterpark
North East School District	Public School District	Wendy's of San Antonio Inc.	Fast Food Restaurants
Northside School District	Public School District	Westaff	Personnel Staffing
Our Lady of the Lake University	Private University	YMCA of Greater San Antonio	Health & Fitness/Youth Centers
Transportation, Comm., Utilities:			
AT&T	Telecommunications	Southwest Airlines	Air Service & Transportation
City Public Service	Electric & Natural Gas Utility	Time Warner Cable	Cable TV & Internet Service
Clear Channel Communications	TV & Radio Stations, Advertising	Trans Met Inc.	Freight Transpiration
Qwest Communications	Telecommunications	U.S. Postal Service	Postal Services
San Antonio Water System	Water Utility	United Parcel Service	Parcel Delivery
SBC Communications Inc.	Telecommunications	Valero Energy Corporation	Crude Oil Refinery
SBC Southwestern Bell	Telecommunications	WorldCom	Telecommunications
Wholesale:			
Advantage Sales & Marketing	Packaged Goods/Food Broker	SYGMA Network, Inc.	Distributor
CARQUEST Auto Parts (Straus-Frank Co.)	Automotive Replacement Parts	Tyson Foods, Inc.	Food Service
Color Spot Nurseries/ Southwest Division	Nurseries		

¹ January 2004, The Greater San Antonio Chamber of Commerce Largest Employer's Directory.

San Antonio Electric and Gas Systems

History and Management

The City acquired its electric and gas utilities in 1942 from the American Light and Traction Company, which had been ordered by the federal government to sell properties under provisions of the Holding Company Act of 1935. The bond ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, Junior Lien Obligations and Commercial Paper Notes establish management requirements and provide that the complete management and control of the City's electric and gas systems (the "EG Systems") is vested in a Board of Trustees consisting of five citizens of the United States of America permanently residing in Bexar County, Texas, known as the "City Public Service Board of Trustees, San Antonio, Texas" (referred to herein as the "CPS Board" or "CPS"). The Mayor of the City is a voting member of the Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the CPS Board and its conduct of the management of the EG Systems.

Vacancies in membership on the CPS Board are filled by majority vote of the remaining members. New CPS Board appointees must be approved by a majority vote of the City Council. A vacancy, in certain cases, may be filled by the City Council. The members of the CPS Board are eligible for re-election at the expiration of their first five-year term of office to one additional term only. In 1997, the City Council ordained that CPS Board membership should be representative of four geographic quadrants established by the City Council. New CPS Board members considered for approval by the City Council will be those whose residence is in a quadrant that provides such geographic representation.

The CPS Board is vested with all of the powers of the City with respect to the management and operation of the EG Systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in the bond ordinances, except regarding rates, condemnation proceedings, and issuances of bonds, notes, or commercial paper. The CPS Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements, and additions to the EG Systems, and to adopt rules for the orderly handling of CPS' affairs. It is empowered to appoint and employ all officers and employees and must obtain and keep in force a "blanket" type employees' fidelity and indemnity bond covering losses in the amount of not less than \$100,000.

The management provisions of the bond ordinances also grant the City Council authority to review CPS Board action with respect to research, development, and planning.

In 1997, CPS established a 15 member Citizens Advisory Committee ("CAC") to enhance its relationship with the community and to address the City Council's goals regarding broader community involvement. The CAC meets monthly and the primary goal of the CAC is to provide recommendations from the community on the operations of CPS for use by the CPS Board and CPS staff. Representing the various sectors of the CPS service area, the CAC encompasses a broad range of customer groups in order to identify their concerns and articulate their issues.

Service Area

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this CPS electric service area has been approved by the Public Utility Commission of Texas (the "PUCT").

CPS is currently the exclusive provider of electric service within the service area, including the provision of electric service to some Federal military installations located within the service area that own their own distribution facilities. As discussed below under "Electric Utility Restructuring in Texas; Senate Bill 7", until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition (called "Texas Electric Choice" by the PUCT), CPS has the sole right to serve as the retail electric energy provider in its service area. On April 26, 2001, the City Council passed a resolution stating that the City did not intend at that time to opt-in to the

deregulated electric market. The City Council has taken no additional action relating to this decision. Senate Bill 7 (“SB 7”), adopted by the Texas Legislature in 1999, provides that “opt-in” decisions are to be made by the governing body or body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the CPS Board and the City Council, any decision to opt-in to competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other areas open to retail competition in the Electric Reliability Council of Texas (“ERCOT”). ERCOT is a synchronous interconnected electric system that operates wholly within Texas. (See “Electric Utility Restructuring In Texas; Senate Bill 7.”)

In addition to the area served at retail rates, CPS sells electricity at wholesale prices to the Floresville Electric Light & Power System, the City of Hondo, the City of Castroville, and the City of Brady. Renewal contracts have been entered into with the first three long-term wholesale customers in recent years. CPS became the wholesale electric provider of the City of Brady under a three-year contract commencing December 2002. CPS believes that it will have additional opportunities to enter into long-term wholesale electric power agreements. The requirements under the existing and any new wholesale agreements would be firm energy obligations of CPS.

The CPS gas system serves the City and its environs, although there is no certificated CPS gas service area. In Texas, no legislative provision or regulatory procedure exists for certification of gas service areas and CPS competes against other entities on the periphery of its service area.

Retail Service Rates

Under the Texas Public Utility Regulatory Act (“PURA”), significant original jurisdiction over the rates, services, and operations of electric “public utilities” is vested in the PUCT. Since the deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT’s jurisdiction over the investor-owned utility companies primarily encompasses only the transmission and distribution function. PURA generally excludes from its coverage municipally-owned utilities (“Municipal Utilities”), such as CPS, but the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility like the EG Systems has exclusive jurisdiction to set rates applicable to all services provided by the municipally-owned electric utility, with the exception of wholesale transmission rates. Unless and until the City Council and CPS Board choose to opt-in to retail competition, CPS retail service electric rates are subject to appellate but not original rate regulatory jurisdiction by the PUCT in areas that CPS serves outside the City limits. To date, no appeal of CPS electric rates has ever been filed. CPS is not subject to the annual gross receipts fee payable by public utilities. (See “Electric Utility Restructuring in Texas; Senate Bill 7” herein.)

The Texas Railroad Commission (“TRC”) has significant original jurisdiction over the rates, services, and operations of all gas utilities. Municipal Utilities such as CPS are generally excluded from regulation by the TRC. CPS retail gas service rates are subject to appellate but not original rate regulatory jurisdiction by the TRC in areas that CPS serves outside the City limits. To date, no appeal of CPS retail gas rates has ever been filed. In the absence of a contract for service, the TRC also has jurisdiction to establish gas transportation rates for service to State agencies by a Municipal Utility as well as rates for gas sale and for transport of State gas for school districts.

The City has covenanted and is obligated under the bond ordinances, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all Maintenance and Operating Expenses of the EG Systems and to pay the debt service requirements on all revenue debt of the EG Systems. Rate changes over the past 14 years have consisted of a 4.0% combined electric and gas base rate increase effective January 31, 1991; a new Large Volume Gas rate effective July 31, 1992, which was offered to Large Gas Customers whose monthly gas usage exceeded 550 MCF per month and enabled them to reduce bills by approximately 8.8%; a Super Large Power (“SLP”) electric rate effective January 4, 1994, which reduced the cost of electricity to customers having loads greater than 5,000 KW per month and annual load factors greater than 41% by approximately \$0.0049 per kWh, a 10.2% reduction on the basic rate; and a 3.5% electric base rate adjustment approved by City Council on September 30, 2004, and made effective on the first day of the billing period in which the closing for CPS’ purchase of an additional interest in the South Texas Project nuclear power plant occurs. The latter rate adjustment is intended to offset the additional costs associated with the purchase, which is expected to be completed during the first half of 2005. CPS projects that the net effect of the rate adjustment and fuel savings from

additional nuclear-fueled generation will be lower bills for CPS electric customers (See “Electric System – Generating System” herein). CPS also offers a monthly contract for renewable energy service (currently this is wind generated electricity) under Rider E15, which became effective September 30, 2002. A rider to the SLP rate, the Economic Incentive Rider E16, became effective March 10, 2003, and offers discounts off the SLP demand charge for a period up to four years for new or added load of at least 10 MW. Under certain conditions, the discount may be extended up to an additional three years. Customers must also meet City employment targets and targets for purchases of goods or services from local businesses in order to qualify for the Economic Incentive Rider.

Each of CPS’ retail and wholesale rates contains a fuel adjustment clause, which provides for current recovery of fuel costs. The adjustment is set at the beginning of each month.

Transmission Access and Rate Regulation

Pursuant to amendments made by the Texas Legislature in 1995 to the PURA (“PURA95”), Municipal Utilities, including CPS, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method. In general, the postage stamp method results in transmission payments to other transmission owners by a compact urban utility like CPS that exceed its receipts from other utilities for their use of its own transmission facilities. CPS’ wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS’ input to the calculation of the statewide postage stamp pricing method. The PUCT’s rule also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. In 2003, the Texas Legislature passed HB 2548, which amended Section 39.203(e) of the PURA. This new law authorizes the PUCT to require transmission owners such as CPS to construct and/or enlarge transmission facilities in order to ensure reliability or to mitigate transmission system constraints within ERCOT.

Electric Utility Restructuring in Texas; Senate Bill 7. During the 1999 legislative session, the Texas Legislature enacted SB 7, providing for retail electric open competition that began in 2002. SB 7 continues electric transmission wholesale open access and fundamentally redefines and restructures the Texas electric industry. The following discussion applies primarily to ERCOT, the interconnected portion of the Texas electric grid in which CPS is located.

SB 7 includes provisions that apply directly to Municipal Utilities, such as the CPS electric system, as well as other provisions that govern investor owned utilities (“IOUs”) and electric co-operatives (“Electric Co-ops”). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy supplier, as well as the retail customers of those Municipal Utilities and Electric Co-ops that elect, on or after that date, to participate in retail electric competition. Provisions of SB 7 that apply to the CPS electric system, as well as provisions that apply only to IOUs and Electric Co-ops are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which the electric system could choose to directly participate in the future.

SB 7 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000 and to unbundle their generation, transmission/distribution, and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies, and possibly operating divisions, that may be owned by a common holding company, but which must operate largely independent of each other. The services offered by such separate entities must be available to other parties on a non-discriminatory basis. Municipal Utilities and Electric Co-ops which opt-in to competition are not required to unbundle their electric system components.

Generation assets of IOUs are owned by “Power Generation Companies”, which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated

and may sell electricity at market prices. IOU owners of transmission and/or distribution facilities are “Transmission and Distribution Utilities” and are fully regulated by the PUCT. Retail sales activities are performed by “Retail Electric Providers” (“REPs”) which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from Power Generation Companies, power marketers, or other parties and may resell that electricity to retail customers at any location in Texas (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). Transmission and Distribution Utilities and Municipal Utilities and Electric Co-ops that have chosen to participate in competition are obligated to deliver the electricity to retail customers, and all of these entities are required to transport power to wholesale buyers. The PUCT is required to approve the construction of new Transmission and Distribution Utilities’ transmission facilities, and may order the construction of new facilities to relieve transmission congestion. Transmission and Distribution Utilities are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities’ governing bodies rather than the PUCT. Each type of unbundled company of the formerly bundled IOUs is prohibited from providing services that are provided by the other types of unbundled companies.

Environmental Restrictions of Senate Bill 7. SB 7 contains specified emissions reduction requirements for certain older electric generating units which would otherwise be exempt from the Texas Commission on Environmental Quality (“TCEQ”, formerly the Texas Natural Resource Conservation Commission) permitting program by virtue of “grandfathered” status. Under SB 7, annual emissions of nitrogen oxides (“NO_x”) from such units are to be reduced by 50% from 1997 levels, beginning May 1, 2003 and reported on a yearly basis. The requirements may be met through an emission allowances trading program that has been established by the TCEQ on a regional basis. CPS applied for State permits from the TCEQ, as required for five CPS generating stations, comprising 12 gas-fired units, and the permits are now final. The NO_x reductions required for SB 7 have been met for the first compliance year and NO_x emissions have been reduced by over 50% system-wide from baseline levels. CPS may require future additional expenditures for emission control technology.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation called Chapter 117 regulations is directed at all units, including CPS’ coal plants. These regulations require a 50% reduction in NO_x emissions beginning May 1, 2005, and annual reporting. In addition, as a result of JK Spruce Plant Unit 2 (“JKS 2”) air permitting process, CPS has committed to tighter NO_x emission limitations than what is required under Chapter 117 at the Calaveras Lake Site once the JKS 2 unit comes on line. It is possible that over the upcoming years the EPA, the State of Texas, and local air quality districts may issue even more stringent regulations governing emissions from many types of power plants. Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission limits have been proposed by EPA which may require new controls at the coal plants in the near future. In addition, new rules were published by EPA affecting CPS’ newer simple cycle combustion turbines, with regard to formaldehyde, and those turbines were tested for that pollutant as part of the compliance testing. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. While it is too early to determine the extent of any such changes, such changes could have a material impact on the cost of power generated at affected electric generating units.

Response to Competition

Strategic Planning Initiatives. CPS has a comprehensive corporate strategic plan that is designed to make CPS more efficient and competitive, while delivering value to customers and the City. Major parts of the plan include restructuring of rates, formulating a wholesale and retail marketing plan, reorganizing CPS along functional lines, and maintaining a debt and asset management program, as further discussed below. These efforts will also have the ongoing support of the CPS Governmental Affairs office, located in Austin, Texas, whose primary role is to review proposed Federal and State legislative actions affecting the electric industry and to represent CPS’ interests in these areas.

Debt and Asset Management Program. CPS has developed a debt and asset management program (the “Debt Management Program”) for the purposes of lowering the debt component of energy costs, maximizing the

effective use of cash and cash equivalent assets, and enhancing financial flexibility in the present and future. An important part of the Debt Management Program is debt restructuring through the increased use of variable rate debt and interest rate swaps where feasible. It is anticipated, however, that the net variable rate exposure of CPS will not exceed approximately 20% of its total outstanding debt. The program also focuses on the use of unencumbered cash and available cash flow to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to lower interest costs, fund strategic initiatives, and increase net cash flow.

Acquisition of Military Base Facilities. On January 14, 2000, CPS purchased the electric and gas systems of the former Kelly Air Force Base ("Kelly"). These facilities include both the area privatized and the portion of Kelly that remains under Air Force control, which is now a part of Lackland Air Force Base ("Lackland"). CPS is the full service electric and gas provider for the Kelly USA Business Park. CPS provides a variety of electric and gas services for Lackland under a General Services Administration contract.

On July 22, 2002, the Brooks City Base Property was conveyed to the City. On October 1, 2002, CPS took ownership of the electric and gas infrastructures. Installation of all electric and gas metering was completed as of November 15, 2002. CPS is working on addressing all health and safety code issues, and this process is approximately 99% completed. CPS is the full service provider for both the electric and gas systems.

On September 30, 2003, CPS acquired the electric utility system at the Camp Bullis ("CB") security training force installation. The CB electric system is primarily an overhead system, which consists of approximately 10 miles of three-phase equivalent distribution lines with a mixture of wood and concrete poles. CPS crews have completed the new electric meter installation and have begun the process of evaluating the overhead distribution system to establish a long-term plan to bring the system to CPS' standards. As part of the transfer, CB became a full-service CPS customer for the next 50 years.

On December 1, 2003, CPS acquired the electric utility infrastructure at Fort Sam Houston, a U.S. Army base ("FSH") and became owner for the electric system at this installation. The FSH electric distribution system is primarily an overhead system and consists of approximately 70 miles of three-phase equivalent distribution lines with a mixture of wood and concrete poles. Over the next several months, CPS crews will have completed 99% of the installation of new electric meters and have begun the process of evaluating the overhead distribution to establish a long-term plan to bring the system to CPS' standards. As part of the transfer, FSH became a full-service CPS customer for the next 50 years. CPS is already the owner and full service provider for the gas system at FSH.

CPS provides a variety of electric and gas services for Lackland under a General Services Administration contract. In June 2003, Lackland personnel met with CPS for a preliminary discussion regarding a sole source acquisition for gas and electric utility systems. The Air Force ("AF") and CPS had several more privatization discussion meetings between July and December 2003. In January 2005, CPS submitted an unsolicited proposal for the electric utility infrastructure at the Lackland Annex at Camp Bullis. The proposal is currently under review by AF personnel. The AF has a target date of September 30, 2005 to review the feasibility of privatizing the utilities.

After CPS received unsuccessful bidder notification on February 24, 2003, from the Defense Energy Support Center regarding the Texas Regional Demonstration Project ("TRD"), Randolph Air Force Base ("Randolph") has not contacted CPS regarding any privatization efforts. CPS remains open to any future requests by Randolph to privatize their utility systems.

Electric System

Generating System. CPS operates 19 electric generating units, three of which are coal-fired and 16 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil, which provides greater fuel flexibility and reliability. CPS also has a 28.0% interest in the two-unit nuclear power plant called the South Texas Project (the "STP"). When both units of STP operate as planned, they supply approximately one-third of CPS' annual electric load. The nuclear units supplied 24.7% of the electric system load during fiscal year 2003-2004 and 28.6% of the load for the twelve months ended October 31, 2004. The purchase by CPS of an additional 12% interest in STP is pending.

STP is located on a 12,220-acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles from San Antonio. AEP Texas Central Company ("AEP") has sold its generation facilities in ERCOT, including its interest in STP. CPS and Texas Genco, L.P. ("Texas Genco") exercised rights of first refusal and have committed to purchase AEP's interest. Texas Genco will purchase an additional 13.2% interest in STP from AEP, bringing its ownership to 44%. CPS will use proceeds from its \$160 million bond issue that closed on November 18, 2004 (the "Bonds") to purchase an additional 12% from AEP, bringing its ownership to 40%. (See "Recent Financial Transactions"). If either the Texas Genco or CPS purchase fails to close, the other has agreed to purchase the remaining AEP share of STP. Close of the purchase of CPS' portion of AEP's interest in STP is contingent upon receipt of two additional regulatory approvals, one from the U.S. Nuclear Regulatory Commission ("NRC"), for transfer of AEP's NRC licenses for STP, and another from the U.S. Internal Revenue Service ("IRS"), for an IRS Private Letter Ruling that the transfer of AEP's Decommissioning Funds is permitted without conditions or limitations thereon that are not reasonably acceptable to CPS. At this time, there appear to be no impediments in obtaining these regulatory approvals and CPS expects receipt of both of these regulatory approvals approximately four to six months following submittal of the respective applications to the NRC and IRS. Closing of the sale transactions is expected in the first half of 2005.

On September 30, 2004, CPS received approval for a change in the amount it charges for retail and certain wholesale rates. This \$41 million base rate adjustment was designed to support the issuance of the Bonds and the increase in CPS' share of operation and maintenance expenses at STP. (See "Retail Service Rates").

STP Participant Ownership - Participants in the STP and their shares therein are as follows (MW capacity are approximations):

<u>Participants</u>	<u>Current Ownership</u>		<u>Following Proposed Sale of AEP's Ownership</u>	
	<u>%</u>	<u>MW</u>	<u>%</u>	<u>MW</u>
Texas Genco, L.P.	30.8	770	44.0	1,100
City Public Service	28.0	700	40.0	1,000
AEP Texas Central Company	25.2	630	0.0	0
City of Austin - Austin Energy	<u>16.0</u>	<u>400</u>	<u>16.0</u>	<u>400</u>
	<u>100.0</u>	<u>2,500</u>	<u>100.0</u>	<u>2,500</u>

STP is maintained and operated by a non-profit Texas corporation ("STP Nuclear Operating Company") financed and controlled by the owners pursuant to an operating agreement among the owners and STP Nuclear Operating Company. Currently, a five-member board of directors governs the STP Nuclear Operating Company, with each owner appointing one member to serve with the STP Nuclear Operating Company's chief executive officer. All costs and output continue to be shared in proportion to ownership interests.

Joint Operating Agreement. CPS and Texas Genco entered into the Joint Operating Agreement ("JOA") effective July 1, 1996. The agreement provides that the two entities will jointly dispatch their generating plants (other than STP) in order to take advantage of the most efficient plants and favorable fuel prices to serve the combined loads of both entities. CPS and Texas Genco now share equally the benefits achieved through joint dispatch of their combined portfolio of power plants, and this arrangement is expected to continue through the term of the agreement that ends in 2009.

Transmission System. CPS maintains a transmission network for the movement of large amounts of electric power from the generating stations to various parts of the service area and to or from neighboring utilities as required. This network is composed of 138 and 345 kV lines with autotransformers to provide the necessary flexibility in the movement of bulk power.

Distribution System. The distribution system is supplied by 83 substations strategically located on the high voltage 138/345 kV transmission system. Approximately 7,426 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of approximately 304 miles of three-phase distribution lines, 82 miles of three-phase Downtown Network distribution lines, and 2,685 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by

underground distribution systems. Presently, 70,697 street light units are in service. The vast majority of the lights are high-pressure, sodium vapor units.

Gas System

Supply Pressure System. The supply pressure system consists of a network of approximately 200 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The supply pressure system operates at pressures between 50 psig and 274 psig, and supplies gas to approximately 267 pressure regulating stations throughout the gas distribution system which reduce the pressure to between 9 psig and 59 psig for the distribution system. A Supervisory Control and Data Acquisition computer system ("SCADA") monitors the gas pressure and flow rates at many strategic locations within the supply pressure system, and most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Distribution System. The gas distribution system consists of approximately 4,372 miles of 2 to 16-inch steel mains and 1-1/4 to 6-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 59 psig. All steel mains are coated and cathodically protected to mitigate corrosion. The vast majority of the gas services are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure. Critical areas of the distribution system are remotely monitored by SCADA.

Implementation of New Accounting Policies

During the month of November 2002, CPS began recording unbilled revenue to correctly match monthly revenues (billed and unbilled) with the recorded monthly expenses.

Recent Financial Transactions

In both June and August of 2004, CPS restructured its New Series 2003A Bond Escrow to take advantage of favorable interest rates. CPS saved a combined \$1.1 million in debt service costs.

On November 18, 2004, CPS issued the Bonds with approval from the CPS Board and City Council. These Bonds are variable rate demand obligations. CPS will use the proceeds to partially fund the purchase from AEP of an additional 300 megawatts of STP nuclear power generation and for other EG Systems improvements.

In March 2005, CPS intends to issue approximately \$241 million in new money revenue bonds. CPS will use the funds to reimburse itself for \$8.3 million in cash previously spent for Electric Transmission construction costs, to fund future Electric Transmission construction projects, and to fund projects related to Electric Distribution, Information, Technology & Communications and General Property. CPS will also be issuing approximately \$295 million in advance refunding revenue bonds. The advance refunding will refund select New Series 1997 bonds and New Series 2002 bonds. The net present value saving in debt service from the refunding is approximately \$19.5 million.

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City Public Service Historical Net Revenues and Coverage¹

(Dollars in Thousands)	Fiscal Years Ended January 31,					
	2000	2001	2002	2003	2004	2004 ²
Gross Revenues ³	\$ 1,079,969	\$ 1,389,239	\$ 1,249,869	\$ 1,271,656	\$1,526,904	\$1,438,746
Maintenance & Operating Expenses ⁴	520,915	754,145	688,876	740,161	942,471	869,863
Available For Debt Service	<u>\$ 559,054</u>	<u>\$ 635,094</u>	<u>\$ 560,993</u>	<u>\$ 531,495</u>	<u>\$ 584,433</u>	<u>\$ 568,883</u>
Actual Principal and Interest Requirements:						
Senior Lien Obligations ⁵	<u>\$ 208,925</u>	<u>\$ 208,567</u>	<u>\$ 212,274</u>	<u>\$ 211,831</u>	<u>\$ 230,250</u>	<u>\$ 241,562</u>
Junior Lien Obligations ⁶	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,111</u>	<u>\$ 3,236</u>
Actual Coverage-Senior Lien	2.68x	3.05x	2.64x	2.51x	2.54x	2.36x
Actual-Senior and Junior Lien	2.68x	3.05x	2.64x	2.51x	2.52x	2.32x

¹ Unaudited

² Twelve months ended October 31, 2004.

³ Calculated in accordance with the ordinances.

⁴ Includes nuclear decommissioning expense, excluding expense applicable to increased capacity. See "ELECTRIC SYSTEM – Generating System".

⁵ Net of accrued interest where applicable.

⁶ Junior Lien Obligations were issued May 15, 2003. Actual adjustable monthly interest payments.

San Antonio Water System

History and Management

In 1992, the City Council consolidated all of the City's water related functions, agencies, and activities into one agency. This action was taken due to the myriad of issues confronting the City related to the development and protection of its water resources. The consolidation provided the City with a singular, unified voice of representation when promoting or defending the City's goals and objectives for water resource protection, planning, and development with local, regional, state, and federal water authorities and officials.

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which created the City's water system ("SAWS"), a single, unified system consisting of the former City departments comprising the waterworks, wastewater, and water reuse systems, together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a stormwater system and any other water related system to the extent permitted by law. To date, the City's stormwater utility system has not been incorporated into SAWS.

The City believes that establishing SAWS has helped to reduce the costs of operating, maintaining, and expanding the water systems and has allowed the City greater flexibility in meeting future financing requirements. More importantly, it has allowed the City to develop, implement, and plan for its water needs through one agency.

The complete management and control of SAWS is vested in a board of trustees (the "SAWS Board") currently consisting of seven members, including the City's Mayor and six persons who are residents of the City or reside within the SAWS service area. With the exception of the Mayor, all SAWS Board members are appointed by the City Council for four-year staggered terms and are eligible for reappointment for one additional four-year term. Four SAWS Board members must be appointed from four different quadrants in the City, and two SAWS Board

members are appointed from the City's north and south sides, respectively. SAWS Board membership specifications are subject to future change on the City Council.

Except as specified otherwise in various ordinances authorizing SAWS' issuance of debt, the SAWS Board has absolute and complete authority to control, manage, and operate SAWS, including the expenditure and application of its gross revenues. With the exception of fixing rates and charges for services rendered by SAWS, condemnation proceedings, and the issuance of debt, the SAWS Board has full power and authority to make rules and regulations governing furnishing to customers, and their subsequent payment for, SAWS' services, along with the discontinuance of such services upon the customer's failure to pay for the same. The SAWS Board, to the extent authorized by law and subject to certain various exceptions, also has authority to make extensions, improvements, and additions to SAWS and to acquire by purchase or otherwise properties of every kind in connection therewith.

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.4 million residents. SAWS employs approximately 1,600 personnel and provides maintenance of over 9,300 miles of water and sewer mains.

Historical Water Consumption (Million Gallons) ¹

<u>Fiscal Year Ended</u>	<u>Daily Average</u>	<u>Peak Day</u>	<u>Peak Month</u>	<u>Metered Usage</u>	<u>Metered Water Revenue</u>
05/31/1999	159	308	July	53,520	\$ 74,317,726
05/31/2000	162	269	August	57,144	80,606,965
05/31/2001	155	267	July	53,047	73,166,293
12/31/2001 ²	159	274	July	34,839	50,517,854
12/31/2001 ³	159	274	July	58,097	74,521,211
12/31/2002 ³	143	222	August	52,303	77,801,600
12/31/2003 ³	150	303	August	50,576	81,188,187

¹ Unaudited.

² On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the seven months ending December 31, 2001.

³ 12 months ending December 31.

Source: SAWS.

Water Consumption by Customer Class (Million Gallons) ¹

	<u>2003 ²</u>	<u>2002 ²</u>	<u>2001 ²</u>	<u>2001 ³</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Residential	27,760	28,372	29,003	19,397	28,694	31,008	29,496
Commercial	11,730	11,942	12,371	6,538	12,384	13,536	11,616
Apartment	7,794	7,791	7,718	4,641	7,783	8,148	8,136
Industrial	2,473	2,696	2,670	1,617	2,737	2,724	2,820
Wholesale	136	173	531	770	535	624	528
Municipal	<u>683</u>	<u>876</u>	<u>784</u>	<u>350</u>	<u>914</u>	<u>1,104</u>	<u>924</u>
	<u>50,576</u>	<u>51,850</u>	<u>53,077</u>	<u>33,313</u>	<u>53,047</u>	<u>57,144</u>	<u>53,520</u>

¹ Unaudited.

² 12 months ending December 31.

³ On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the seven months ending December 31, 2001.

Source: SAWS.

SAWS System

SAWS includes all water resources, properties, facilities, and plants owned, operated, and maintained by the City relating to supply, storage, treatment, transmission, and distribution of treated potable water, chilled water, and steam (collectively, the “waterworks system”), collection and treatment of wastewater (the “wastewater system”), and treatment and recycle of wastewater (the “recycle water system”) (the waterworks system, the wastewater system, and the recycle water system, collectively, the “system”). The system does not include any “Special Projects,” which are declared by the City, upon the recommendation of the SAWS Board, not to be part of the system and are financed with obligations payable from sources other than ad valorem taxes, certain specified revenues, or any water or water-related properties and facilities owned by the City as part of its electric and gas system.

In addition to the water related utilities that the SAWS Board has under its control, on May 13, 1993, the City Council approved an ordinance establishing initial responsibilities over the stormwater quality program with the SAWS Board and adopted a schedule of rates to be charged for stormwater drainage services and programs. As of the date hereof, the stormwater program is not deemed to be a part of the system.

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS’ service area currently extends over approximately 561 square miles, making it the largest water purveyor in Bexar County. SAWS served more than 80% of the water utility customers in Bexar County and provides potable water service to approximately 306,300 customers, which includes residential, commercial, apartment, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 14 elevated storage tanks and 38 ground storage reservoirs with combined storage capacities of 144.7 million gallons. By the end of calendar year 2003, the waterworks system had in place 4,251 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between six and 12 inches), and 22,117 fire hydrants distributed evenly throughout the SAWS service area.

Wastewater System. The San Antonio City Council created the City Wastewater System in 1894. A major sewer system expansion program began in 1960 with bond proceeds that provided for new treatment facilities and an enlargement of the wastewater system. In 1970, the City became the Regional Agent of the Texas Commission on Environmental Quality (“TCEQ”) (formerly known as the Texas Water Commission and the Texas Water Quality Board). The Regional Agent Boundary encompasses approximately 360 square miles within Bexar County. In 1992, the wastewater system was consolidated with the City’s waterworks and recycle water system to form the System.

SAWS serves the residents of the City, 18 governmental entities, and other customers outside the corporate limits of the City. As Regional Agent, SAWS has certain prescribed boundaries that currently cover an area of approximately 403 square miles. SAWS also coordinates with the City of San Antonio for wastewater planning for the City’s total planning area, Extra-territorial Jurisdiction (“ETJ”), of approximately 956 square miles. The population for this planning area is approximately 1.2 million people.

In addition to the treatment facilities owned by SAWS, there are six privately owned and operated sewage and treatment plants within the San Antonio ETJ. There are approximately 321,000 wastewater sewer connections within Bexar County. Of these, SAWS serves approximately just over 330,000 customers.

The wastewater system is composed of approximately 5,000 miles of mains; three major treatment plants (Dos Rios, Leon Creek and Salado Creek); and a smaller treatment plant (Medio Creek). The three major plants are activated sludge facilities and the small plant is an extended aeration plant. SAWS holds Texas Pollutant Discharge Elimination System wastewater discharge permits, issued by the TCEQ for each of these four plants which have a combined treatment capacity of 225.7 million gallons per day. In addition, SAWS operates and maintains several small satellite facilities that vary in number and are temporary, pending completion of interceptor sewers that will connect the flow treated at such facilities to the wastewater system. The permitted flows from the wastewater system’s four regional treatment plants represent approximately 98% of the municipal discharges within the ETJ.

Recycling Water System. SAWS is permitted to sell Type I (higher quality) recycled water from its wastewater treatment plants, and has been doing so since 2000. The recycle system is comprised of two north/south transmission lines and an interconnecting line that is one-third complete. Current capacity is 35,000 acre-feet.

Chilled Water and Steam System. SAWS owns and operates eight thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide chilled water and/or steam service to 23 customers. Numerous City of San Antonio facilities that include the Convention Center and Alamodome constitutes approximately 75% of the downtown system's chilled water and steam annual production requirements. The remaining six thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located in the Kelly USA industrial area on the City's west side. Additionally, under a Memorandum of Agreement with the Brooks Development Authority, SAWS provides operational and maintenance services for the Brooks City Base central thermal energy facility and two small satellite sites. Together, chilled water and steam services produced \$12,823,938 in revenues in fiscal year 2004.

Stormwater System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity in response to EPA-mandated stormwater runoff and treatment requirements. The City, along with SAWS, has the responsibility, pursuant to the "Authorization to Discharge under the National Pollutant Discharge Elimination System" (the "Permit"), for water quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the Permit. The approved annual budget for the SAWS share of program responsibilities for fiscal year 2004 is \$3,206,210, for which SAWS is reimbursed \$2,746,327 from the storm water utility fee imposed by the City.

Water Supply

Until recently, the City obtained all of its water through wells drilled into a geologic formation known as the Edwards Limestone Formation. The portion of the formation supplying water in the City's area has been the "Edwards Underground Water Reservoir" (the "Edwards Aquifer") and since 1978 has been designated by the Environmental Protection Agency as a sole-source aquifer under the Safe Drinking Water Act. The Edwards Aquifer lies beneath an area approximately 3,600 square miles in size, and including its recharge zone, it underlies all or part of 13 counties, varying from five to 30 miles in width, and stretching over 175 miles in length, beginning in Bracketville, Kinney County, Texas, in the west and stretching to Kyle, Hays County, Texas, in the east. The Edwards Aquifer receives most of its water from rainfall runoff, rivers, and streams flowing across the 4,400 square miles of drainage basins located above it.

Much of the Edwards Aquifer region consists of agricultural land, but it also includes areas of population ranging from communities with only a few hundred residents to the City and other urban areas with well over one million residents. The Edwards Aquifer supplies nearly all the water for the municipal, domestic, industrial, commercial, and agricultural needs in its region. Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed by Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

The water level of the Edwards Aquifer has never fallen below the uppermost part of the Edwards Aquifer, even during the extreme and lengthy drought conditions lasting from 1947 to 1956. The maximum fluctuation of water levels at the City's index well has been about 91 feet, with the recorded low of 612 feet above sea level in August 1956 and a recorded high of 703 feet above sea level in June 1992. The historical (1934 to 2001) average water level at the index well in San Antonio is approximately 664 feet above sea level. SAWS sets all pumps at 575 feet to ensure continuous access to Edwards Aquifer water in any anticipated condition.

The Edwards Aquifer is recharged by seepage from streams and by precipitation infiltrating directly into the cavernous, honeycombed, limestone outcroppings in its north and northwestern area. Practically continuous recharge is furnished by spring-fed streams, with storm water runoff adding additional recharge, as well. The historical annual recharge to the reservoir is approximately 684,700 acre-feet. The average annual recharge over the

last four decades is approximately 797,900 acre-feet. The lowest recorded recharge was 43,000 acre-feet in 1956, while the highest was 2,485,000 acre-feet in 1992. Recharge has been increased by the construction of recharge dams over an area of the Edwards Aquifer exposed to the surface known as the recharge zone. The recharge dams, or flood-retarding structures, slows floodwaters and allows much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer.

Enhancing the City's Water Supply

The City has relied on the Edwards Aquifer as its sole source of water since the 1800s. Beginning in the 1980s and continuing today, however, the management of the water in the Edwards Aquifer has been the subject of intense scrutiny that has led to both extensive litigation and federal and state agency initiation of regulatory action. In 1993, the Texas Legislature adopted the Edwards Aquifer Authority Act, which created a new regulatory agency to manage withdrawals from the Edwards Aquifer and to protect springflows. This agency, known as the Edwards Aquifer Authority ("EAA"), is charged with preserving and protecting the Edwards Aquifer in an eight-county region including all of Uvalde, Medina, and Bexar counties, plus portions of Atascosa, Caldwell, Guadalupe, Comal, and Hays counties.

Based upon population and water demand projections, along with various regulatory and environmental issues, the City recognizes that additional water sources will be required to supplement withdrawals from the Edwards Aquifer to enable the City to meet the its long-term water needs.

SAWS' Water Resources Department is charged with the responsibility of identifying additional water resources for the City and its surrounding areas. New water resource projects range from optimizing the City's current source through conservation measures, to identification and procurement of completely new and independent water sources. These efforts are guided by the 1998 Water Resource Plan, the first comprehensive, and widely supported water resource plan for the City, which established programs for formulating and implementing both immediate and long-term water plans to enhance the City's water supply. In October 2000, the City Council created a permanent funding mechanism (the "Water Supply Fee") to be used for water supply development and water quality protection. The Water Supply Fee is based upon a uniform rate per 100 gallons of water used and is applied to all customers. The Water Supply Fee is projected to generate sufficient revenue to support approximately \$519 million in capital expenditures, as well as sufficient operational funds to conduct the planning, operation, and maintenance of such water resource facilities through 2005. The multi-year financial plan will be updated every three years to ensure sufficient revenues are available to meet the water resource requirements.

A listing of scheduled water supply fees for years 2001-2005 is provided in the following table:

Year	Incremental Charge Per 100 Gallons	Total Charge Per 100 Gallons	Actual Assessment
2001	\$ 0.0358	\$ 0.0358	\$ 0.0358
2002	0.0350	0.0708	0.0708
2003	0.0230	0.0938	0.0844
2004	0.0190	0.1128	0.1100
2005	0.0250	0.1378	0.1378

Source: SAWS, approved by City Council.

SAWS has determined that the City's water needs can be met through the implementation of an array of programs and projects, including a critical period management plan, conservation, agricultural irrigation efficiencies, reuse, surface water, non-Edwards Aquifer groundwater, enhanced recharge capabilities, and aquifer storage and recovery. SAWS has already initiated and/or implemented many such programs in an effort to increase the supply of water available to the City. Development of additional non-Edwards Aquifer supplies as described below should result in predictable and certain water supply necessary to meet anticipated peak demands.

Conservation Program. SAWS has implemented an aggressive water conservation program, which has reduced pumping to 140 gallons per person per day in 2003 and will reach 132 gallons per person per day over the next five to ten years. This will be accomplished through a diverse set of programming including consumer

education, rebates for water-efficient technologies, system improvements to prevent water loss, and other measures. SAWS has a unique commercial conservation program as well as a strong residential program. The Community Conservation Committee is a group of stakeholders appointed by the Board of Trustees to advise SAWS on water conservation issues. The Conservation Program is based on partnerships with stakeholders.

SAWS has also developed partnerships with local authorities, groundwater districts, and purveyors to ensure the conservation messages and programs are available throughout the region. The Water Advisory Group, consisting of cities throughout Bexar County and the Edwards Aquifer region meets regularly to coordinate conservation, drought management, and other water resource policies.

Short-Term Supply

Edwards Aquifer Acquisitions. The Edwards Aquifer will always be the cornerstone of San Antonio's water supply and SAWS has spent approximately \$30.9 million to buy Edwards water since the inception of the Water Supply Fee in 2001. Under drought conditions, SAWS' pumping permit from the EAA is expected to provide approximately 135,000 acre-feet per year through 2007, and 120,000 acre-feet per year thereafter if further reductions are required. SAWS has also been proactive in acquiring permanent Edwards Aquifer water rights. To this date SAWS has purchased 38,000 acre-feet, under average conditions, (32,000 under drought conditions) of additional rights above the base permit amount and will continue to purchase available water rights.

Leases. SAWS will acquire approximately 50,000 acre-feet of additional Edwards Aquifer pumping rights (42,500 acre-feet under drought conditions) by purchase or lease of water rights from irrigators west of San Antonio and have spent about \$6.2 million in leases since the inception of the Water Supply Fee in 2001. SAWS is committed pursuant to SAWS Board policy not to acquire so much water from this source that it would undermine the agricultural economy of the region.

Brush Management/Agriculture Conservation. SAWS is committed to the conservation of irrigation water within the region as well as all irrigation water that is associated with various SAWS water resource development projects. Edwards Aquifer water conserved by agriculture is mutually beneficial to all users. The Agricultural Conservation Program is categorized into three components: direct conservation, research & education, and regional partnership projects.

Direct Conservation. The most significant quantity of water to be conserved can be derived from improving the efficiency of agricultural irrigation systems.

Research and Education. SAWS, in partnership with regional interests, supports research and implementation of watershed activities (i.e., brush management) that increases watershed yield.

Regional Partnership Projects. Development of the Irrigation Technology Center ("ITC") is moving forward. The ITC will be a unique world-class facility with four primary missions: 1) Develop design and performance standards for agricultural and landscape irrigation systems; 2) Establish an equipment testing and certification program; 3) Provide training and educational services for irrigators, agency, and industry personnel; and 4) Develop new and improved irrigation technologies, methods, and management practices. This new facility is now planned to be located at or near the newly planned Texas A&M campus to be located in Bexar County. SAWS support of the facility and the research will provide a direct benefit to all irrigation water use, both agricultural and urban.

Edwards Aquifer Optimization. The Aquifer Optimization Program conducts sound scientific research to evaluate whether the pumping limits defined in Senate Bill 1477 can be increased without compromising the management goals of Senate Bill 1477. Key objectives include maintaining the endangered species and their habitats at Comal and San Marcos springs and providing flow from the springs for downstream users. Technical options must be identified and evaluated to increase available water in the Edwards Aquifer and to use the aquifer's storage capacity more efficiently. This program is primarily the responsibility of the EAA, however, SAWS provides staff support to manage the Technical Advisory Group, as well as direct financial support. The Edwards Aquifer Optimization program consists of 14 long-range studies that are designed to increase our knowledge of how

the aquifer works and determine the effects on ecosystems dependent on water from the Edwards Aquifer. SAWS is working with the EAA to study the feasibility of “Recharge and Recirculation”.

Water Recycling Program. SAWS owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water inside and outside SAWS’ water and wastewater service area. SAWS anticipates a delivery of reuse water at or near capacity within two years. Construction efforts have been concentrated on completion of two major branches of the water reuse system serving the eastern and western portions of the City. SAWS anticipates operation of this program at full capacity within two years, culminating in the conversion to non-potable water uses for those currently using Edwards Aquifer water. Upon completion, SAWS will deliver up to 35,000 acre feet per year of reuse water for non-potable water uses including golf courses and industrial uses that are currently being supplied from the Edwards Aquifer. This represents approximately 20% of SAWS’ current usage. This infrastructure project will have transmission mains throughout the City, as well as storage and treatment components. Reuse water will be delivered for industrial processes, cooling towers, and irrigation, which would otherwise rely on potable quality water. Combined with the 40,000 acre-feet per year used by CPS, this is the largest reuse water project in the Bexar County. SAWS has a contract with CPS through 2030 for provision of such reused water. The revenues derived from the CPS contract have been excluded from the calculation of SAWS gross revenues, and are not included in any transfers to the City.

Aquifer Storage and Recovery (ASR). In October 2002, TCEQ authorized SAWS to construct and operate a 60 million-gallon per day water injection and recovery facility in South Bexar County. The Edwards Aquifer has been identified as the source of supply to the South Bexar County ASR project. This storage technology has been successfully proven as an economical and environmentally sensitive alternative to surface water reservoirs in many instances across the nation. The ASR administration building, well field pipeline and treatment plant facilities were completed and operational in mid-2004. The second phase of the project will be completed in 2005. Phase II builds the infrastructure necessary to double the storage capacity to 22,500 acre-feet. In addition to the storage capacity which will reduce drought impacts, SAWS will also be able to produce 6,400 acre-feet of non-Edwards groundwater.

Trinity Aquifer. SAWS introduced the first non-Edwards supply into its potable water system in February of 2002. This groundwater project is produced from the Lower Glen Rose/Cow Creek formation of the Trinity Aquifer in Northern Bexar County. Sustainability studies show that approximately 5,000 acre-feet per year can be sustained from this source. SAWS will continue to monitor and develop a sustainable yield on this source of supply. Production of Trinity water from both the Oliver Ranch and BSR properties is fully operational.

Western Canyon Project (Canyon Reservoir). SAWS has contracted with the Guadalupe-Blanco River Authority (“GBRA”) for 8,500 acre-feet of water from Canyon Lake to serve customers in the northern and northwestern portion of its service area. The annual volume from this project will decrease over time to a minimum annual supply of 3,900 acre-feet. This will be the first regional project to be delivered in the Comal, Kendall, and Northern Bexar County area. This project has endured numerous legal challenges in which GBRA has prevailed. The water treatment plant and intake structure construction contracts have been awarded. Final design of the raw water pipeline is approximately 90% complete and construction contracts have been awarded. The project is scheduled to be completed and ready for delivery in late 2005.

Regional Carrizo. The Carrizo-Wilcox is one of the state’s major aquifers and an important groundwater resource in South Central Texas. SAWS completed an initial feasibility study on the Carrizo-Wilcox Aquifer, which is located between the Frio and San Marcos Rivers covering all or parts of Atascosa, Bexar, Frio, Gonzales, Guadalupe, Karnes, La Salle, Live Oak, McMullen, Medina, and Wilson Counties. The results of the study indicate that a potential groundwater supply project could be developed in Gonzales and Wilson Counties to provide the San Antonio region with approximately 55,000 acre-feet per year. The project will be developed in phases as approved by the SAWS Board. Western Gonzales County (approximately 22,000 af/yr) will be brought into San Antonio in approximately 2008. Phase II of the project (water from Wilson County) will provide approximately 11,000 af/yr in 2009. Phase III of the project is expected to bring in water (22,000 af/yr) from northeastern Gonzales County in approximately 2011.

Edwards Recharge Initiatives. SAWS, as well as the South Central Texas Regional Planning Group, have recently evaluated the most favorable structures for this region. The Nueces, San Antonio, and Guadalupe River

Basins are favorable for development of recharge projects. Structures in the Nueces Basin are the most prolific in terms of recharge effectiveness. Once these structures are built, the sustained yield from this project will be over 13,000 acre-feet per year. SAWS is currently involved in two studies with the U.S. Army Corps of Engineers and other local sponsors. The studies involve the Cibolo Creek and the Nueces River watersheds, which include researching the feasibility of placing recharge structures within the watersheds. The studies are scheduled to be completed within five years. This project is programmed to come online in the 2013 timeframe.

Long-Term Supply

Simsboro Project. SAWS signed a contract with ALCOA for the purchase of water from their Rockdale property located in Lee and Milam Counties in December 1998. A second contract with CPS to purchase water rights from CPS-owned lands in Bastrop County was also approved at that time. Combined water production from these two properties is expected to provide 55,000 acre-feet of water per year from the Simsboro Aquifer for 80 years or more starting in 2015.

Lower Guadalupe Water Supply Project (LGWSP). SAWS, the San Antonio River Authority (“SARA”), and GBRA have entered into an agreement to divert presently under-utilized surface water rights and unappropriated streamflow from the Guadalupe River together with groundwater from the Gulf Coast aquifer. Approximately 94,500 (SAWS-85,050 and SARA-9,450) acre-feet/yr of water will be provided initially under this contract. Water will be diverted at a point below the confluence of the Guadalupe River and San Antonio River, located approximately 133 miles southeast of San Antonio. A companion agreement between SAWS and SARA divided the rights and responsibilities of the purchasers in the above-mentioned Water Supply and Delivery Agreement with GBRA. The SAWS/SARA agreement provides that all water users within SARA’s district and other water providers within Bexar County will have an opportunity to participate at their cost in the water supply made available from the Lower Guadalupe Water Supply Project.

This project is scheduled to come online in the 2015 timeframe. The Concept Development Study was completed in October 2004 and work continues on the Groundwater Availability Report, environmental studies, and surface water permits.

LCRA-SAWS Water Project. The State's SB-1 regional planning groups have determined that additional water supplies are available in the Lower Colorado River Basin. Approximately 150,000 acre-feet may be available within the basin by the Lower Colorado River Authority. SAWS and LCRA signed the definitive agreement on February 27, 2002. The contract starts with a seven-year study period that began in 2002. Dollars will be programmed in the short term to fund the necessary studies. If the project is determined to be feasible, an implementation plan will be developed. If both the LCRA and SAWS Board approve the implementation plan, the contract will provide for an initial 50-year water supply transfer and a 30-year extension provision for the development and delivery of this supply. All six of the environmental/ groundwater/conservation feasibility studies were initiated in July 2004. This project is scheduled to come online within the 2035-2040 timeframe.

Capital Improvement Plan

The following is a proposed five-year Capital Improvement Program for SAWS. It is the intention of SAWS to fund the program with tax-exempt commercial paper, impact fees, system revenues, and future bond issues. SAWS budgeted the following capital improvement projects during calendar year 2005:

- \$36.8 million for the wastewater treatment program to repair, replace, upgrade, or expand treatment facilities;
- \$5.1 million for the wastewater collection program to repair, replace, upgrade, or expand the collection system;
- \$15.9 million to replace sewer and water mains;
- \$33.6 million for the governmental replacement and relocation program;
- \$10.4 million for the water distribution program to upgrade and expand the distribution system; and
- \$12.8 million for water supply development, water treatment, and water transmission projects for new sources of water.

SAWS anticipates the following capital improvement projects for the five fiscal years listed:

	Fiscal Year Ended December 31,					Total
	2005	2006	2007	2008	2009	
Heating and Cooling	\$ 1,206,150	\$ 436,839	\$ 327,341	\$ 1,667,414	\$ 1,136,539	\$ 4,774,283
Water Delivery	36,258,469	48,195,851	42,325,094	46,567,466	40,559,398	213,906,278
Wastewater	73,741,531	65,107,689	75,978,348	75,214,525	85,506,567	375,548,660
Water Supply	128,752,800	96,268,370	178,641,014	39,849,700	80,609,100	524,120,984
Total Annual Requirements	<u>\$ 239,958,950</u>	<u>\$ 210,008,749</u>	<u>\$ 297,271,797</u>	<u>\$ 163,299,105</u>	<u>\$ 207,811,604</u>	<u>\$ 1,118,350,205</u>

Source: SAWS.

Project Funding Approach

The following table was prepared by SAWS staff based upon information and assumptions it deems reasonable, and shows the projected financing sources to meet the projected capital needs.

	Fiscal Year Ended December 31,				
	2005	2006	2007	2008	2009
Revenues	\$ 17,988,111	\$ 26,988,100	\$ 31,792,641	\$ 40,799,573	\$ 46,486,891
Impact Fees	25,609,331	9,753,471	9,899,773	10,048,270	10,198,994
Debt Proceeds	196,361,508	173,267,178	255,579,383	112,451,262	151,125,719
Total	<u>\$ 239,958,950</u>	<u>\$ 210,008,749</u>	<u>\$ 297,271,797</u>	<u>\$ 163,299,105</u>	<u>\$ 207,811,604</u>

Source: SAWS.

Recent Financial Transactions

In June 2004, SAWS issued \$84,700,000 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004 for construction of additions to the system and to refund certain outstanding commercial paper notes. SAWS also issued \$10,635,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004, and \$26,365,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004-A through the Texas Water Development Board in July 2004 for construction of additions to the system and to refund certain outstanding commercial paper notes.

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San Antonio Water System Summary of Pledged Revenues for Debt Coverage ¹

	Fiscal Year Ended December 31			7 Month Period Ended December 31,	Fiscal Year Ended May 31,		
	2003	2002	2001 ¹	2001 ²	2001	2000	1999
<u>Revenues</u>							
Water System	\$ 65,163,910	\$ 58,873,352	\$ 79,451,701	\$ 52,803,937	\$ 77,044,280	\$ 82,485,798	\$80,975,392
Water Supply	76,044,416	76,167,052	36,684,084	23,537,496	21,863,709	11,919,369	2,056,493
Wastewater System	87,683,794	89,312,338	87,438,542	51,541,185	91,175,034	96,194,858	92,775,036
Chilled Water and Steam System	12,193,646	10,871,599	12,899,862	6,822,031	9,800,573	5,127,414	4,234,203
Non Operating Revenues ³	6,992,664	7,547,353	-0-	12,249,485	7,341,296	8,468,123	5,494,022
Adjustments for Pledged Revenues	<u>(5,591,341)</u>	<u>(6,985,130)</u>	<u>-0-</u>	<u>(3,770,167)</u>	<u>(4,334,051)</u>	<u>(6,749,142)</u>	<u>(3,733,765)</u>
Total Revenues	<u>\$242,487,089</u>	<u>\$235,786,564</u>	<u>\$216,474,189</u>	<u>\$143,183,967</u>	<u>\$202,890,841</u>	<u>\$197,446,420</u>	<u>\$181,801,381</u>
Maintenance and Operating Expenses	<u>\$152,716,590</u>	<u>\$138,212,615</u>	<u>\$134,616,252</u>	<u>\$ 78,448,318</u>	<u>\$121,350,696</u>	<u>\$115,016,340</u>	<u>\$100,429,763</u>
Net Revenue Available for Debt Service	<u>\$ 89,770,501</u>	<u>\$ 97,573,949</u>	<u>\$ 64,735,649</u>	<u>\$ 64,735,649</u>	<u>\$ 81,540,145</u>	<u>\$ 82,430,080</u>	<u>\$ 81,371,618</u>
Maximum Annual Debt Service Requirements – Total Debt ⁴	<u>\$ 76,075,114</u>	<u>\$ 66,267,591</u>	N/A	N/A	<u>\$ 66,994,372</u>	<u>\$ 62,099,234</u>	<u>\$ 49,385,448</u>
Maximum Annual Debt Service Requirements – Senior Lien Debt ⁴	<u>\$ 61,511,375</u>	<u>\$ 61,511,375</u>	N/A	N/A	<u>\$ 56,293,054</u>	<u>\$ 53,566,454</u>	<u>\$ 49,385,448</u>
Debt Service for Period	N/A	N/A		<u>\$ 38,081,878</u>	N/A	N/A	N/A
Coverage of Total Annual Debt Service Requirements	1.18 X	1.47 X	N/A	N/A	1.22 X	1.33 X	1.65 X
Coverage of Senior Lien Annual Debt Service Requirements	1.46 X	1.59 X	N/A	N/A	1.45 X	1.54 X	1.65 X

¹ Unaudited.

² On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the seven (7) months ending December 31, 2001.

³ Beginning in 2001, capital contributions, including items such as impact fees, were recognized as non-operating income in accordance with GASB 34. The non-operating revenues have been re-stated to remove the capital contributions to conform to the Ordinance.

⁴ As of the end of the fiscal year shown, excludes TECP, see “City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004, Debt Information – Table 11 – Coverage and Fund Balances” for coverage ratio after issuance of the Bonds.

Source: SAWS.

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The Airport System

General

The City's airport system consists of the San Antonio International Airport (the "International Airport" or the "Airport") and Stinson Municipal Airport ("Stinson") (the International Airport and Stinson, collectively, the "Airport System"), both of which are owned by the City and operated by its Department of Aviation (the "Department").

The International Airport, located on a 2,600-acre site that is adjacent to Loop 410 and U.S. Highway 281, is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second-level gates. Presently, domestic air carriers providing scheduled service to San Antonio are America West, American, Atlantic Southeast, Comair, Continental, Continental Express, Delta, Midwest, Northwest, Skywest, Southwest, United, and United Express. Mexicana, Aerolitoral, and Aeromar are Mexican airlines that provide passenger service to Mexico. The City is currently implementing portions of its Airport Master Plan, including designs allowing for an increase from 24 to 55 gates. It is estimated that current gate facilities are being used at 82% of capacity. A variety of services are available to the traveling public from approximately 245 commercial businesses, including nine rental car companies, which lease facilities at the International Airport and Stinson.

Stinson, located on 300 acres, is located approximately 5.2 miles southeast of the City's downtown business district. Established in 1915, and named for the Stinson family, aviation pioneers, Stinson is one of the country's first municipally owned airports. It is today the second oldest continuously operating airport in the U.S. and is the FAA's designated general aviation reliever airport to the International Airport. During 2001, a process was initiated to develop a new Stinson Master Plan which was completed in 2002. The Master Plan provides recommendations for airfield and facility improvements needed to meet growing operation demands. The planning effort will facilitate the development of Stinson to expand its role as a general aviation reliever to the International Airport. The Texas Department of Transportation accepted the Stinson Master Plan in 2002 and has recommended \$16.0 million in grant funding for capital improvements over the next ten to fifteen years. The expansion of Stinson's facilities is also needed to take advantage of new, complementary business opportunities evolving with the synergy between Brooks City-Base, KellyUSA, and Stinson. A Targeted Industries Study was completed in 2003 as part of the master planning process. The study will help facilitate development of Stinson properties through the identification of industries and businesses considered to be compatible for locating at Stinson.

Capital Improvement Plan

General. In fiscal year 2002, the City commenced implementation of a ten-year Capital Improvement Plan (the "CIP") pursuant to the Master Plan for the International Airport. The CIP is scheduled to conclude in fiscal year 2011. However, due to the terrorist attacks which occurred on September 11, 2001, the timing of some projects has been adjusted and the ultimate completion of the plan may extend beyond that date. The CIP addresses both terminal and airfield improvements. The CIP includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and extension and improvement to two runways along with supporting taxiways and aircraft apron. The capital program over the next five years addresses primarily terminal-related improvements, parking, roadway improvements, and airfield improvements.

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The anticipated sources of funding are as follows:

Funding Sources	Anticipated Funding
Federal Grants	
Entitlements	\$ 27,054,000
General Discretionary	45,105,000
Noise Discretionary	20,867,000
Passenger Facility Charges (“PFCs”)	
Pay-As-You-Go	39,831,000
PFCs Secured Bonds	102,548,000
Other Funding	
Airport Funds	34,596,000
Airport Revenue Bonds	<u>70,604,000</u>
Total – All Sources	<u>\$340,605,000</u>

The CIP includes capital improvements, which are generally described as follows:

Improvement	Amount
International Airport	
Terminal/Gate Expansion	\$121,389,000
Airfield Improvements	87,173,000
Cargo Facilities	11,368,000
Roadway Improvements	21,376,000
Parking Improvements	46,865,000
Aircraft Apron	22,504,000
Other (Building Imp., Drainage, etc.)	20,819,000
Stinson Airport	<u>9,111,000</u>
Total	<u>\$340,605,000</u>

Proposed PFC Projects. Public agencies wishing to impose PFCs are required to apply to the Federal Aviation Administration (the “FAA”) for such authority and must meet certain requirements specified in the PFC Act and the implementing regulations issued by the FAA.

The FAA issued a Record of Decision on August 29, 2001 approving the City’s initial PFC application. The City, as the owner and operator of the Airport, has received authority to “impose and use” PFCs at the \$3.00 level on five projects and to “impose only” PFCs on six other projects. On July 24, 2003, the City received approval from the FAA on its second application for “impose and use” authority on two projects which were previously “impose only.”

The City began on November 21, 2001, collecting a \$3.00 PFC (less the \$0.08 air carrier collection charge) per paying passenger enplaned. A total of approximately \$102.5 million in PFC revenues will be required to provide funding for these projects at the Airport included in the CIP and are listed below.

The following projects have been approved as “impose and use” projects:

- Construct 30L Holding Apron
- Modify Wash Rack Apron
- Replace RON (remain overnight) Apron
- Implement Terminal Modifications
- Reconstruct Perimeter Road
- Construct New Concourse B
- Construct Concourse B Access Road
- Implement Acoustical Treatment Program

The following projects have been approved as “impose only” projects:

- Construct Three High-Speed Taxiways
- Extend Runway 21 and Associated Development
- Construct Aircraft Rescue and Firefighting Training Facility

Terminal Renovations. A comprehensive terminal renovation project was completed in 2003 to improve the quality of services provided to passengers at the San Antonio International Airport. The project, which cost approximately \$28 million, included a completely new appearance to the building interiors and provided state-of-art terminal amenities. Included in the terminal renovations was complete redevelopment of the concessions program that provided high-quality retail and food establishments offering a mix of regional and national brands at street prices. Concession space was expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets are now at airside locations. In total, 42 concession contracts were awarded. The new concessions program is also projected to increase revenues in the Airport from \$3.2 million in fiscal year 2002 to \$4.8 million in fiscal year 2004. On a per-boarding passenger basis, concession revenue is expected to go from \$0.99 in fiscal year 2002 to \$1.31 for fiscal year 2004. Following the Airport’s implementation of its new concessions program, it was recognized by the *Airport Revenue News’* 2004 “Best Concessions Poll.” The Airport’s concession program was voted for by a panel of judges in the Airport category with less than 4 million enplanements. San Antonio won two first place awards. The Airport was honored for having the Terminal with the “Most Unique Services” and the Best Overall Concessions Program. The publication noted the Airport’s high-tech business services, such as high-speed fax and internet, wireless capabilities and conference rooms. The Best Overall Concessions Program award is given to airports with a convenient customer-friendly layout, good visibility, attractive storefronts, and interesting themes. Also in 2004, *J. D. Power and Associates* announced through its Global Airport Satisfaction Index Study, San Antonio International Airport tied for the highest ranking in customer satisfaction among airports with less than 10 million passengers per year.

Parking Improvements. San Antonio International Airport operates and maintains approximately 5,810 parking spaces and 1,230 employee parking spaces for a total of 7,040 parking spaces. A parking study was developed in 2001 for the International Airport by AGA Consulting, Inc. The study indicated that projected peak period demand for airport parking will exceed the available supply by the end of 2006. It is estimated that 2,400 additional parking spaces will be required to satisfy projected demand over the next ten years. Future requirements for vehicle parking are currently being addressed with the design of a new long-term/short term garage. The design work is underway with groundbreaking for a new five-story garage, with approximately 2,260 long-term spaces and 660 short-term spaces, planned for the summer of 2005. The associated costs are included in the CIP.

Cargo Improvements. San Antonio International Airport has two designated cargo areas: The West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992 and expanded in 2003. The East Cargo Area is specifically designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics constructed a processing facility in the year 2000. UPS is in the process of expanding its facilities by reloading from the West Cargo area to the East Cargo Area in early 2005. A new belly freight facility is currently under design. Additional land has been allocated to accommodate future growth and an expansion of facilities are currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2004 totaled 133,383 tons.

Airport Operations

General. The City is responsible for the issuance of revenue bonds for the Airport System and preparation of long-term financial feasibility studies for Airport System development. Direct supervision of airport operations is exercised by the Department. The Department is responsible for (i) managing, operating, and developing the International Airport, Stinson, and any other airfields which the City may control in the future; (ii) negotiating leases, agreements, and contracts; (iii) computing and supervising the collection of revenues generated by the Airport System under its management; and (iv) coordinating aviation activities under the FAA.

The International Airport has its own police and fire departments on premises. The firefighters are assigned to duty at the Airport from the City Fire Department, but their salaries are paid by the Department as an operation and maintenance expense of the Airport System.

The FAA has regulatory authority over navigational aid equipment, air traffic control, and operating standards at both the International Airport and Stinson.

The passage of the Aviation and Transportation Security Act ("ATSA") in November of 2001, created the Transportation Security Administration ("TSA"). The City's Aviation Department has worked closely with the TSA to forge a new higher level of security for the traveling public. TSA employs about 300 individuals at San Antonio International Airport to meet the new federal security requirements.

International Airport's explosive detection screening equipment is currently located in the ticket lobby areas of the two terminals. However, the Aviation Department is working with the TSA to relocate all baggage screening equipment behind the terminals in new baggage handling systems planned as part of the upcoming Terminal Expansion Project. The City entered into an agreement with the TSA for reimbursements up to \$425,800 for the costs associated with the use of Airport police officers at the Airport security screening checkpoints in each terminal. The Aviation Department also utilizes four Explosive Detection Canine teams. The police officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in the baggage pickup areas, concourses, parking, cargo, and aircraft. This program is supported by the TSA with reimbursement to the Airport System at \$160,500. International Airport's coverage is provided in addition to canine support received from San Antonio Police Department and Bexar County Sheriff's Office.

The Aviation Department has continued to work to improve its security measures. The FAA approved a grant application (80% AIP funding) in 2004 to conduct a security assessment of the International Airport's security program. This project includes an inventory of the existing security measures and an evaluation based on current and anticipated provisions of the ATSA. Recommendations for security enhancements and upgrades could include items such as perimeter fencing, air operations area access points, cargo/belly freight facilities, terminals, fueling areas, concession deliveries, and air traffic control tower.

Financings. On March 20, 2003, the City issued the following two series of refunding bonds payable from its collection of gross revenues of the airport system: \$8,175,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-A" and \$3,255,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-B." The proceeds from the respective issuances of such bonds were used to refund certain of the City's outstanding debt obligations payable from the collection of gross revenues of the airport system.

On April 8, 2003, the City delivered \$50,230,000 "City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003" to refund a portion of the "City of San Antonio, Texas Airport System Improvement Bonds, Series 1993" and to effectuate an interest savings equal to \$3,460,075. Such bonds were sold on April 19, 2001.

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Comparative Statement of Gross Revenues and Expenses - San Antonio Airport System

The historical financial performance of the Airport System is shown below:

	Fiscal Year Ended September 30				
	2000	2001	2002	2003	2004*
Gross Revenues ¹	\$ 41,523,081	\$ 42,928,794	\$ 42,377,654	\$ 43,930,687	\$ 44,729,251
Airline Rental Credit	6,175,754	5,209,037	4,468,199	2,612,609	3,486,271
Adjusted Gross Revenues	\$ 47,698,835	\$ 48,137,831	\$ 46,845,853	\$ 46,543,296	\$ 48,215,522
Expenses	(21,585,826)	(23,612,635)	(22,296,698)	(25,363,607)	(25,127,534)
Net Income	\$ 26,113,009	\$ 24,525,196	\$ 24,549,155	\$ 21,179,689	\$ 23,087,988

* Unaudited

¹ As reported in the City of San Antonio's audited financial statements.

Source: City of San Antonio, Department of Finance.

Total Domestic and International Enplaned Passengers - San Antonio International Airport

The total domestic and international enplaned passengers on a calendar basis, along with year-to-year percentage change:

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1995	3,058,536	(6,232)	(0.20)
1996	3,568,328	509,792	16.67
1997	3,484,141	(84,187)	(2.36)
1998	3,505,372	21,231	0.61
1999	3,538,070	32,698	0.93
2000	3,647,094	109,024	3.08
2001	3,444,875	(202,219)	(5.54)
2002	3,349,146	(95,729)	(2.78)
2003	3,250,741	(98,405)	(2.94)
2004	3,498,189	247,448	7.61

Source: City of San Antonio, Department of Aviation.

Total Enplaned/Deplaned International Passengers - San Antonio International Airport

The total enplaned and deplaned for international passengers at the International Airport on a calendar year basis are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1995	141,645	(97,312)	(40.72)
1996	193,843	52,198	36.85
1997	200,965	7,122	3.67
1998	246,902	45,937	22.86
1999	229,397	(17,505)	(7.09)
2000	243,525	14,128	6.16
2001	219,352	(24,173)	(9.93)
2002	201,274	(18,078)	(8.24)
2003	159,576	(41,698)	(20.72)
2004	191,254	31,678	19.85

Source: City of San Antonio, Department of Aviation.

Air Carrier Landed Weight - San Antonio International Airport

The historical aircraft landed weight at the International Airport in 1,000-pound units on a calendar year basis is shown below. Landed weight is utilized in the computation of the Airport's landed fee.

<u>Calendar Year</u>	<u>Total</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
1995	5,273,701	(379,872)	(6.72)
1996	5,555,613	281,912	5.35
1997	5,530,247	(25,366)	(0.46)
1998	5,601,616	71,369	1.29
1999	5,778,407	176,791	3.16
2000	5,838,185	59,778	1.03
2001	5,546,561	(291,624)	(5.00)
2002	5,559,018	12,457	0.22
2003	5,390,981	(168,037)	(3.02)
2004	5,417,764	(26,783)	(0.50)

Source: City of San Antonio, Department of Aviation.

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